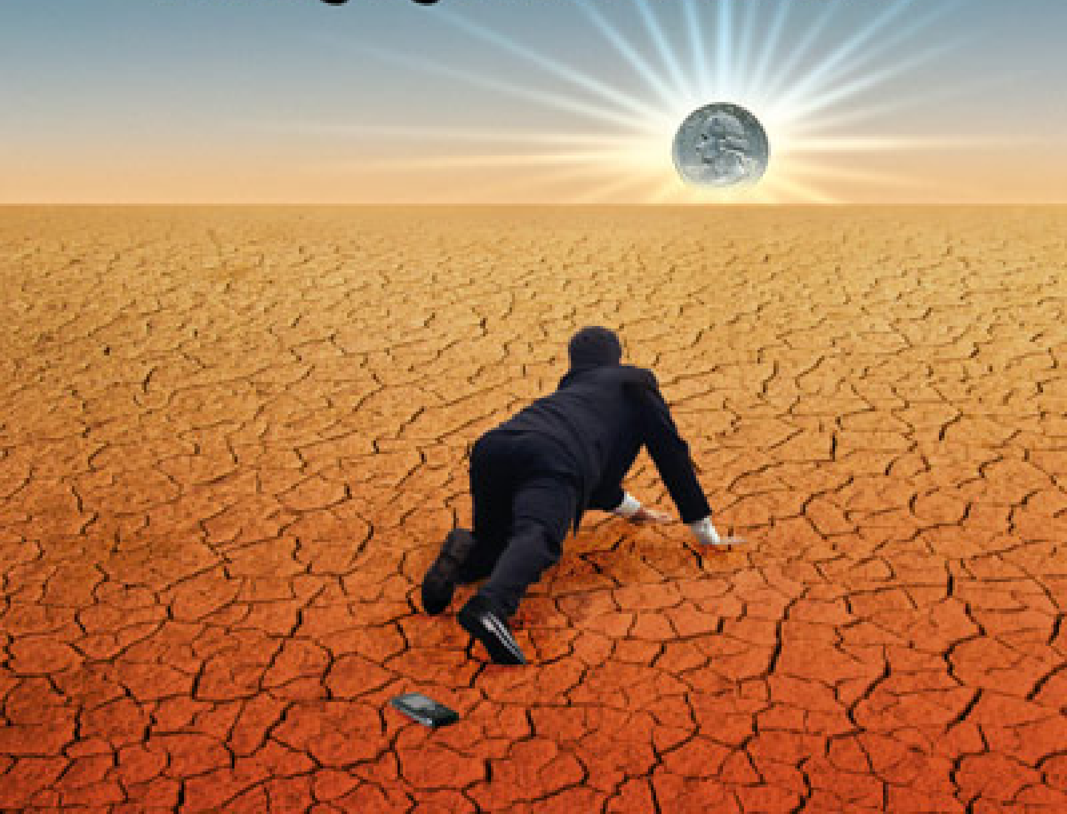
The Economist

NOVEMBER 22ND–28TH 2008

www.economist.com

All you need is cash

Managing in the downturn



Home
This week's print edition
Daily news analysis
Opinion
All opinion
Leaders
Letters to the Editor
Blogs
Columns
KAL's cartoons
Correspondent's diary
Economist debates
World politics
All world politics
Politics this week
International
United States
The Americas
Asia
Middle East and Africa
Europe
Britain
Special reports
Business
All business
Business this week
Management
Business education
Finance and economics
All finance and economics
Economics focus
Economics A-Z
Markets and data
All markets and data
Daily chart
Weekly indicators
World markets
Currencies
Rankings
Big Mac index
Science and technology
All science and technology
Technology Quarterly
Technology Monitor
Books and arts
All books and arts
Style guide
People
People
Obituaries
Diversions
Audio and video
Audio and video library
Audio edition
The World In
The World in 2009
The World in 2008
The World in 2007
The World in 2006
The World in 2005
The World in 2004
Research tools
All research tools
Articles by subject
Backgrounders
Economics A-Z
Special reports
Style guide
Country briefings
All country briefings
China
India
Brazil
United States
Russia

Print edition November 22nd 2008

All you need is cash
The increasingly desperate search for the stuff is changing modern management—not always for the better: leader

Previous print editions

Nov 15th 2008
Nov 8th 2008
Nov 1st 2008
Oct 25th 2008
Oct 18th 2008

More print editions and covers »

Subscribe

Subscribe to the print edition
Or buy a Web subscription for full access online
RSS feeds
Receive this page by RSS feed

The world this week

Politics this week
Business this week
KAL's cartoon

Leaders

Modern management
All you need is cash

American fiscal policy
No time to waste

Germany's chancellor
Where's Angela?

Prostitution
An amber light

North Korea
Going, going, going again

Anarchy in Somalia
The lawless Horn

Bank bail-outs
Leaving Las Vegas

Letters

On climate change, justice, Heathrow, Pope Pius XII, John McCain, contracts, Barack Obama, gay marriage

Briefing

Sudan
A gleam among the ruins

United States

Spending and the economy
The end of the affair

Stimulus packages
To spend or not to spend

The Senate
Inching to 60

Barack Obama's BlackBerry
Subject: Guantánamo

Green trends in California
Cooling off

Payday lending
Casting out the money-lenders

Gun sales
Booming

Arkansas's lottery
Taking a punt

Lexington
How new a deal?

The Americas

The Amazon's indigenous people
The other Brazil

Mexico
The scribes' lament

Colombia
Tumbling pyramids

Saving Canada's polar bears
Unbearable pursuits

Asia

Asian economies
Sittin' on the dock of a bay

Tibetans in exile
Splitting splittists

Taiwan's opposition
Hungry for justice

Pakistan's finances
Not so much a bail-out

Business

Innovation in America
A gathering storm?

The car industry
Pass the plate

Trouble at easyJet
Uneasy relationship

Business in Asia
You still can't get the staff

Mobile phones
The battle for the smart-phone's soul

NTT DoCoMo
International roaming

Face value
Listen to the music

Briefing

Managing in the downturn
Desperately seeking a cash cure

Audits
Accounting for concern

Finance and economics

Compensation in finance
Payback

Markets
The TARP trap

Bank bail-outs
Quids pro quo

Citigroup
A supertanker in trouble

Buttonwood
The big mo

Troubled securities in Asia
Thanks, Hank

Global governance
Goodbye G7, hello G20

Economics focus
Health and wealth

Science & Technology

Criminology
Can the can

Psychology
Cleanliness is next to godlessness

Loudspeakers
Nanotunes

Stem cells
Breathe in deeply, please

Books & Arts

Qatar's Museum of Islamic Art
Smart art mart

The politics of inflation
Onward and upward

Chess
Pawnography

American poets
Serious engagement

France in the second world war
Smoke and mirrors

New fiction
Bolaño-mania

Articles flagged with this icon are printed only in the British edition of *The Economist*

Politics this week

Nov 20th 2008
From The Economist print edition

AFP

A Saudi Arabian supertanker, the *Sirius Star*, was seized by **Somali pirates** about 450 nautical miles off the Kenyan coast on November 15th. It was the biggest vessel hijacked by the pirates so far, and joins at least a dozen others held in Somali ports waiting to be ransomed. See article

Germany extradited Rose Kabuye, a senior **Rwandan** presidential aide, to France on November 19th where she faces questions over the killing of a former Rwandan president, Juvenal Habyarimana, which sparked the 1994 Rwandan genocide.

The secretary-general of the United Nations, Ban Ki-moon, told Israel's prime minister, Ehud Olmert, that he was deeply concerned about the humanitarian situation in the **Gaza Strip**, two weeks after Israel imposed a total blockade after more violence between militants and Israeli forces.

The **Iraqi** cabinet approved a new security pact with the United States, governing the deployment of American troops in the country. There was a brawl in parliament when the pact was debated. Under the deal, American troops will withdraw from the streets of Iraqi towns by next year, and all 150,000 troops will have to leave the country by the end of 2011. See article

Al-Qaeda welcomed Barack Obama's election victory with a diatribe. Ayman al-Zawahiri, the terror network's second-in-command, called him a "house negro". Among many other sins, Mr Obama was accused of betraying his Muslim roots.

The International Atomic Energy Agency confirmed that a Syrian structure bombed by Israel in 2007 resembled a **nuclear reactor**.

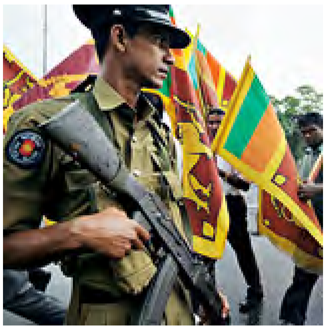
Lean times

The IMF is to ask its board to lend **Pakistan** $7.6 billion to help it solve a balance-of-payments crisis. Pakistan hopes to borrow from allies and friendly governments too. The IMF also approved a $2.1 billion loan to **Iceland**; four other Nordic countries will supply an extra $2.5 billion. See article

Chen Shui-bian**, Taiwan's** previous president, returned to jail after three days of hospital treatment following a hunger-strike, which Mr Chen's lawyer said he will continue. Mr Chen is under arrest awaiting charges of alleged corruption. See article

Tibetan exiles gathered in Dharamsala in northern India to discuss strategy. The Dalai Lama, their spiritual leader, has admitted that seeking greater autonomy for Tibetans in China through talks with the Chinese is not working. See article

AFP



The government of **Sri Lanka** claimed an important military success in its war against the Liberation Tigers of Tamil Eelam, with the recapture of the northern town Pooneryn, on a strategic road-link. See article

Afghanistan's president, Hamid Karzai, offered to provide protection for Mullah Omar, leader of the Taliban, should he return to the country for peace talks.

Crime and punishment

A military leader of **ETA**, the Basque terrorist group, was arrested in France.

Spanish police said that Garikoitz Aspiazu, whose alias is Cherokee, was behind most recent ETA bombings and killings. See article

The trial began in Moscow of three men, two Chechens and a former policeman, accused of involvement in the murder of Anna Politkovskaya, a **Russian journalist**, in 2006. The judge first ruled that the trial should be open to the public, but then changed his mind, stirring suspicions that the identities of those responsible for the murder would never be known.

A judge in **Spain**, Baltasar Garzón, abandoned his plan to investigate Franco-era killings after state prosecutors challenged his jurisdiction over the crimes. He also handed responsibility for decisions to dig up civil-war mass graves to regional courts.

Cem Ozdemir became the first person from an ethnic-minority background to lead a political party in **Germany**. Mr Ozdemir, who is of Turkish origin, was elected a co-chairman of the Greens at a party congress in Erfurt. See article

Mills and factories

The rumour-mill was in overdrive after reports that **Hillary Clinton** was being offered the post of secretary of state by Barack Obama; there was no confirmation of this. But reports that Peter Orszag, head of the Congressional Budget Office, is being hired as Mr Obama's budget director seemed to be well-founded. Tom Daschle was said to have accepted the health portfolio and Eric Holder, a former Clinton official, looked set to be chosen as Mr Obama's attorney-general.

Democratic leaders in the American Senate said that they have not yet mustered sufficient support to provide $25 billion in loans to the troubled auto industry. On November 18th the heads of the **Big Three** carmakers pleaded in Washington, DC, for emergency assistance. See article

Republican Ted Stevens' bid to stay on as senator for Alaska despite his conviction on corruption charges failed. The Democrats' victory in Alaska takes the number of **Senate seats** they control to 58, with two results still undecided, in Minnesota and Georgia. See article

Still going, though not strong

AFP

The first photograph of Fidel Castro to be published in five months appeared on the website of the Russian Orthodox Church. It showed the 82-year-old former president of **Cuba** looking frail but alert at the consecration of an Orthodox cathedral in Havana on October 20th.

Uruguay's president, Tabare Vazquez, vetoed a bill that would have legalised abortion up to the 12th week of pregnancy. Like most other Latin American countries, Uruguay allows abortion only in cases of rape or if the woman's life is in danger.

According to the preliminary findings of an investigation, a plane crash in **Mexico** on November 4th in which 15 people, including the interior minister, Juan Camilo Mouriño, were killed, is thought to have been caused by turbulence from another aircraft, not mechanical failure or foul play. Ten officials have been blamed for an air accident in **Brazil** in 2007 which killed 199 people.

Carlos Menem, former president of **Argentina**, was ordered to appear in court in December, charged with obstructing an inquiry into the bombing of a Jewish cultural centre in Buenos Aires in 1994 in which 85 people were killed and more than 200 hurt. No one has ever been convicted.

Business this week

Nov 20th 2008
From The Economist print edition

Citigroup, which has recorded a loss in each of the past four quarters, said that it would cut 52,000 jobs, on top of the 23,000 already announced since the beginning of the year. The latest reduction will leave Citi with around 300,000 employees. About half the posts will go in businesses that the bank is selling. Stockmarkets reacted negatively. Citi's shares tumbled 23% on November 19th, and the Dow Jones Industrial Average closed below 8,000 for the first time since March 2003. See article

Goldman Sachs announced that its seven most senior bankers would not receive bonuses for 2008. The news followed Goldman's receipt of a $10 billion capital injection from the American government and intense scrutiny of Wall Street bonuses on Capitol Hill. **Barclays** and **UBS** also said that their most senior executives would not be paid bonuses this year. The Swiss bank added that the **compensation system** for all its top staff would be revised from 2009, to put greater emphasis on long-term performance. See article

Jerry Yang stepped down as chief executive of **Yahoo!**, a position he had held for 18 months. The internet firm's co-founder had been criticised by shareholders for failing to reach a takeover deal with Microsoft. Hopes that his departure would allow a deal to be made were quickly quashed by a statement by Steve Ballmer, chief executive of Microsoft. All talks about an acquisition were "done", said Mr Ballmer; Microsoft had "moved on". Mr Yang will return to being chief Yahoo, a position without direct executive responsibility. See article

High flyers

The European Aeronautic Defence and Space Company (EADS), the parent of **Airbus**, reported a net profit of €679m ($1b) in the third quarter, compared with a loss of €776m a year earlier. It was helped by the rise of the dollar, which led to a revaluation of unprofitable contracts.

There was also good news for **Boeing**, which reached a tentative agreement with its engineers' union, which had been threatening to go on strike. Boeing's commercial-aeroplane unit already endured a strike by union machinists that lasted 58 days and ended earlier this month.

The row between Sir Stelios Haji-Ioannou, founder and non-executive director of **easyJet**, Europe's fourth-biggest airline, and the rest of the airline's board has escalated. Sir Stelios refused to approve the budget airline's annual accounts because of concerns about the balance-sheet value of some assets acquired in the takeover of GB Airways, a small British carrier, earlier this year. See article

At a crossroads

Carrefour announced that **Lars Olofsson**, a senior executive at Nestlé, would take over as its chief executive at the end of the year. He will replace José Luis Duran, who has run the company for three years. The French supermarket company has been struggling to cope with competition from discount retailers, and has been criticised for its over-reliance on western Europe, where growth is slow.

InBev, a Belgian brewer, completed its purchase of America's **Anheuser-Busch**, days after getting approval from the American justice department. The authorities' nod came after InBev agreed to sell Labatt USA, a small sales arm. The new company, called Anheuser-Busch InBev, is the world's largest brewer.

What goes up

In October **American consumer prices** fell by 1%, the biggest monthly fall since seasonally-adjusted changes began to be reported in 1947. The

core consumer-price index, which excludes food and energy costs, declined by 0.1%. Headline inflation plunged to 3.7% on a year-on-year basis from 4.9% a month ago. Britain's consumer-price index fell by the most in a month since its inception in 1997. The annual inflation rate tumbled to 4.5% in October, down from 5.2% a month ago. Cheaper oil was the biggest contributor to the fall.

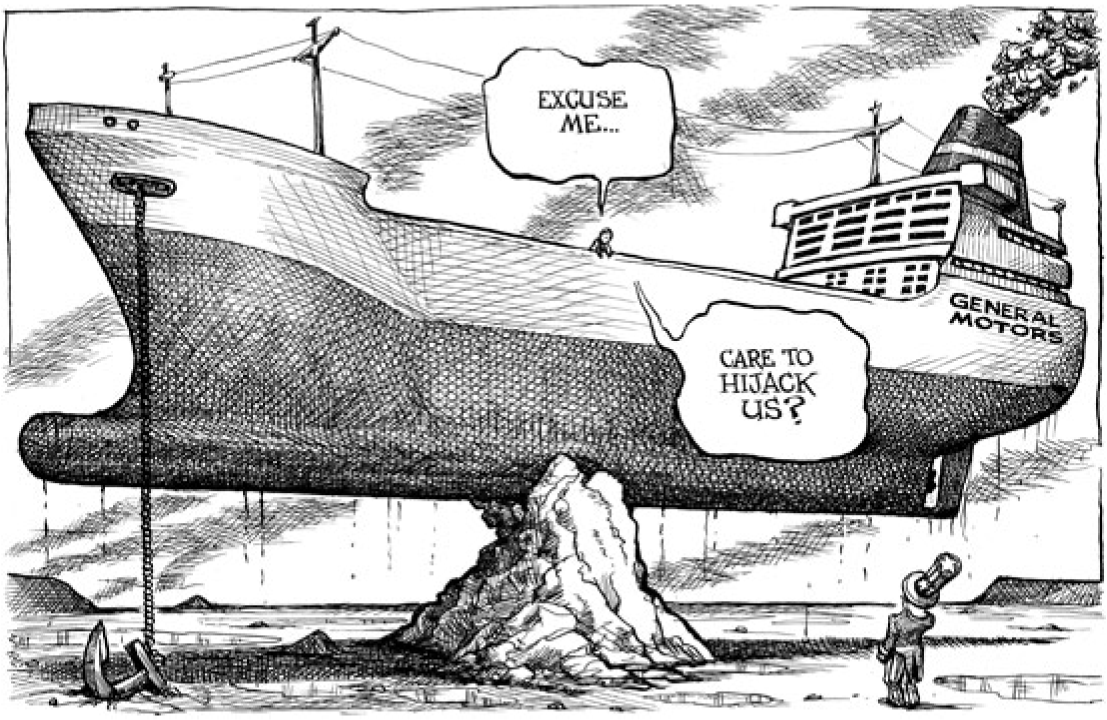
The economies of the **euro zone** shrank for the second quarter in a row in the third quarter of 2008, meeting a common definition of recession for the first time since the European single currency came into being in 1999. **Japan's economy** also fell into recession, contracting by 0.1% in the third quarter after having shrunk by 0.9% in the second quarter. Exports were 7.7% lower in October than a year earlier, the biggest drop since late 2001. See article

Leaders of the **G20**, a group of 20 rich and emerging economies, met in Washington, DC. They agreed on the need to stabilise the world's financial system, to take co-ordinated action to boost demand, to strengthen regulation and to maintain open trade. The leaders said that they would hold a second summit by April 30th 2009. See article

KAL's cartoon

Nov 20th 2008
From The Economist print edition

Illustration by KAL



Modern management

All you need is cash

Nov 20th 2008
From The Economist print edition

The increasingly desperate search for the stuff is changing modern management—not always for the better

SELDOM has corporate strategy been turned on its head so quickly. Barely a year ago, cash was a dangerous thing to accumulate: activist investors stalked companies, urging boards to return it to investors, to pay special dividends or to buy back shares. Ever since the 1980s the fashion had been to make companies as lean as possible, outsourcing all but your core competencies, expanding your just-in-time supplier system around the globe, loading up with debt to "leverage" your balance-sheet. Old-style defensive conglomerates, such as Arnold Weinstock's General Electric Company, were dismantled. Companies that hoarded cash—even ones as good as Toyota and Microsoft—were viewed with suspicion.

No longer. For many big American companies, the day of reckoning came two months ago when the deepening financial crisis brought about the abrupt closure of the overnight commercial-paper market. This briefly sent even the most solid companies into a desperate scramble to find money to meet such basic obligations as paying their staff. Since then, the guiding principle for managers everywhere has been to gather up whatever cash they can find, and then do their damnedest to keep as much of it as possible for as long as possible.

For some firms—the investment banks or the Detroit carmakers—this struggle is already a very public affair. But most of the panic is still hidden. In Britain solid corporate giants are finding it harder to roll over routine loans. Across Europe nervous accountants say they will need to see more proof that firms are "going concerns" before they sign off year-end accounts. In America *Fortune* 500 firms now face questions from investors about how long their cash will last at current "burn rates". In Silicon Valley, Sequoia, a venture-capital firm, recently told the small businesses in which it has invested to treat every dollar as if was the last they would ever raise, to cut jobs and scale back growth plans that were not immediately "cashflow-positive". And the emerging world is not immune: witness a stiff e-mail from Ratan Tata to managers at India's bellwether Tata group telling them to undertake "a critical review of their cashflow requirements and business plans".

Thrift and its paradoxes

This cash squeeze is a huge problem for the world economy, because as firms cut discretionary spending wherever they can, the result is likely to be a corporate version of what John Maynard Keynes called the "paradox of thrift". Every firm does what is prudent for itself, but by cutting its spending it slows down

the economy still further and thus hurts everybody, including itself. This will only reinforce the need for expansionary monetary and fiscal policy (see article) to boost demand; and also for more direct support in credit markets, such as the Federal Reserve's prop for the commercial-paper market (already tapped by some large American firms).

These are vital tasks for politicians and regulators, but for managers the paradox works the other way: spending money might be in society's interests, but not in their shareholders'. For a whole generation of bosses, what they do in the next few months may come to define the rest of their careers.

For the few lucky hoarders, this is a time to feel both smug and predatory. Japanese firms have been able to make $71 billion in foreign acquisitions so far in 2008, which is on track to be a record year. Bill Gates thought his company should have enough cash to survive a year with zero sales: its $21 billion pile now gives it even more options than normal. Cash-rich drugs firms, such as Eli Lilly, Roche, Merck and Bristol-Myers Squibb, have all said that the financial turmoil presents an opportunity for them to buy biotechnology companies at knock-down prices. Germany's Siemens plans to provide finance for customers that are strapped for cash. A study, aptly from Citigroup (which axed 52,000 people this week), shows cash hoarders now outperforming indebted firms, having lagged before.

For the non-hoarders, there is a balance to be struck. In the short term some of the old ways to perk up your share price now seem suicidal. Huge dividends or share buybacks have to be regarded as reckless (even though share prices, as Warren Buffett points out, look cheap). What was once seen as evidence of corporate fitness for the moment looks like anorexia. More padding—in the form of cash in the bank—will be necessary to secure a clean bill of health. Likewise, ultra-lean supply chains no longer look like such a brilliant idea when you have to find cash to keep afloat a supplier that cannot get even basic trade credit. "Just in time" is giving way to "just in case".

The bloodbath or the death spiral?

But for how long? This new conservatism is not solely motivated by the fact that cash is hard to come by; demand is also falling for most firms' products. Households and firms alike have hit the pause button, and no one knows when they will press "play" again. Companies need to plan for that day as well.

As in every downturn, who succeeds and who fails is likely to be determined not by what costs are cut, but how they are cut and above all which ones are not cut. There is a hint of blind panic about some redundancies. Companies argue that one big swing of the axe does less harm than what Sequoia calls the "death spiral" of successive morale-sapping rounds of modest job cuts. But firms that get a reputation for too readily offloading people whom they described only recently as "our most important assets" will suffer eventually in the labour market. One reason why downturns tend to be good times to launch new businesses is because established companies abandon promising growth opportunities too fast. Oracle and Microsoft were both born in difficult economic times.

And there will also come a time when the necessity to safeguard cash is not so all-consuming. Rash though some of them seem today, the Western management fads of the past 30 years improved productivity (one year's outperformance does not prove the Japanese model was right). But even if cash does become more plentiful, it is doubtful whether today's generation of managers will be quite so cavalier about taking it for granted. That change in attitude, more than anything else, will be the legacy of this credit crunch for the corporate world.

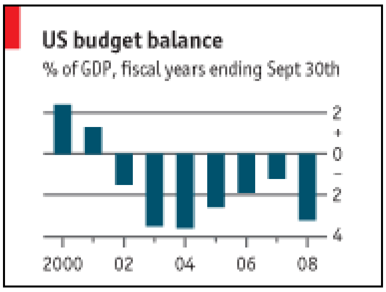
Economist.com OPINION LEADERS

American fiscal policy

No time to waste

Nov 20th 2008
From The Economist print edition

The American economy urgently needs a big fiscal stimulus. Too bad both parties are putting politics first



AT THEIR summit in Washington, DC, last weekend, the leaders of the G20—the world's biggest rich and emerging economies—promised "rapid" fiscal stimulus to prop up their economies. Sadly, America already seems to be failing to keep that promise, paralysed by the politics of transition.

As *The Economist* went to press, a Democrat-backed plan for a $100 billion fiscal boost, which included a modest rise in infrastructure spending and some aid to the states as well as a misguided bail-out for Detroit's carmakers, seemed doomed in the Senate. The lame-duck Congress looks set to deliver nothing more than an extension of unemployment benefits. Serious debate about a broader stimulus has been put off until the new president and legislature take over in January.

That may not seem long. But given the deterioration of America's economy in recent weeks, the delay is dangerous. From tumbling retail sales to soaring unemployment claims, the latest statistics suggest that the economy has grown increasingly grim (see article). Private demand is plunging as consumers are battered by tight credit, falling wealth and rising unemployment, while fearful firms hunker down. Americans' collective and sudden rediscovery of thrift is pushing the economy into its worst recession since at least 1982. And unlike the early 1980s, there is little prospect of a quick turnaround.

Shovel it out to the states

Normally spending splurges are to be distrusted, but the scale of this downturn argues for bold budgetary action. Large sums will be needed: at least $300 billion, or more than 2% of GDP. And with so swift a decline, speed is of the essence, not least because America has far fewer "automatic stabilisers" than other rich countries with which to cushion a recession.

Thanks to the changing nature of America's workforce, unemployment insurance offers less of a prop to demand than it used to. The proportion of part-time workers, for instance, is higher than it was a generation ago, but in nearly two-thirds of states part-time workers are ineligible for unemployment benefits. The states' fiscal rules, which require most of them to balance their budgets, also make a federal stimulus more urgent. With revenues vanishing, the states collectively face a $70 billion budget gap this year. Half have already started cancelling infrastructure projects, cutting health-care benefits or laying off workers.

The federal government can counter this. A bill to modernise unemployment insurance has already passed the House of Representatives, though it languishes in the Senate. Washington can shovel money to the states quickly and easily, for instance by increasing its share of jointly financed spending, such as Medicaid, which pays for poor people's health care. The Senate Democrats' stimulus plan would have done this, if too timidly. Republican opposition, based on a misguided aversion to government spending and political sour grapes, is short-sighted in the extreme.

Nor, though, are the Democrats blameless. Looking ahead to bigger majorities in January, congressional Democrats have been less than eager to seek compromise. More worrying, too many on the left are keener on the grand rhetoric of redefining government's role than on the practicalities of designing effective stimulus. Washington is full of talk of a new New Deal (see article) to put many thousands to work building a greener America. But details are scant, even as many states have scores of "shovel-ready" infrastructure projects set to be axed.

Cushioning America’s downturn will demand fiscal boldness, but that does not mean eschewing simple, speedy solutions. Quick and plentiful aid to the states is one of the best.

Germany's chancellor

Where's Angela?

Nov 20th 2008
From The Economist print edition

It would be good for Germany and the world if Angela Merkel had a higher profile

Reuters

ITS economy is the biggest in Europe and the fourth-largest in the world. It is the world's biggest exporter of goods. It has just slumped into a recession. Remarkably, it is still (just) running a budget surplus. Yet through all the recent weeks of crisis-driven summitry, little has been heard from Germany. Angela Merkel, the chancellor of the past three years, has been notable mainly for her invisibility. The contrast with France's demonically hyperactive Nicolas Sarkozy and even Britain's newly energised (and weirdly cheery) Gordon Brown has been striking.

There are perfectly good reasons for Ms Merkel's low profile. France happens to occupy the European Union's six-monthly rotating presidency, giving Mr Sarkozy an excuse to push to the fore. Mr Brown was a long-serving chancellor of the exchequer and IMF junkie whose grasp of international finance is widely acknowledged. Ms Merkel is by her nature a backroom operator with more of an appetite for policy details than for flashy headlines. And she is hobbled politically because her centre-right Christian Democratic Union (CDU) is in a "grand coalition" with the centre-left Social Democratic Party (SPD). Indeed, the campaign for next September's federal election, in which Ms Merkel will run against her own foreign minister, Frank-Walter Steinmeier, who hails from the SPD, has in effect already begun (see article).

Yet the office of German chancellor provides a powerful pulpit from which to preach both to a home audience and to other countries. And the fact is that Germany is having a bad crisis. For too long it thought it might skip the downturn altogether, and it was late to wake up to the extent of its banks' ills. It has been disgracefully reluctant to come up with a large fiscal stimulus, even though it is one of the countries that can best afford one. Like many of his predecessors, the finance minister, Peer Steinbrück, another SPD cove, is over-attached to notions of fiscal rectitude. When the rich world is teetering on the edge of its worst recession since the 1930s, this is no time to insist on balanced budgets.

The silent woman

A louder voice from Germany is desirable not just because it has more scope than others to borrow and spend. It is also needed to bolster Europe's belief in competition and free markets. Mr Sarkozy is by no means the only politician in Europe to have seized on the financial crisis as an excuse to question the wisdom of laissez-faire and to advocate a bigger role for the state. As someone who grew up in communist East Germany, Ms Merkel has more reason than most to be wary of such an idea. Unfortunately her own government is wavering, with talk this week of help for Opel, a subsidiary of America's troubled General Motors.

Ms Merkel might retort by pointing out that she is still highly popular with ordinary voters. Indeed, her party seems likely to win the next election. But a splintered electorate may still force her into a second unsatisfactory grand coalition. The risk then is that a continuation of political gridlock would stop further economic reforms in Germany. Worse, Ms Merkel herself sometimes seems unsure that more reform is really needed. Yet though employment has held up recently (see article), few economists doubt that, like the rest of Europe, Germany needs greater liberalisation and more competition if it is to sustain its enviable prosperity in the long run.

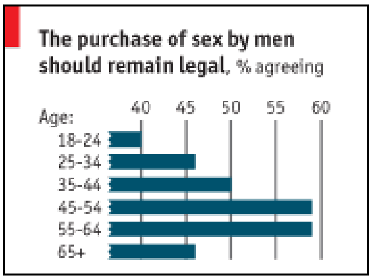
Ms Merkel is a skilful operator (politicians who oppose her often seem to change careers). But she would do her country and Europe a favour if she were to speak out more. Who knows, she might even do it persuasively enough to be able to dispense with her troublesome SPD partners next year.

Prostitution

An amber light

Nov 20th 2008
From The Economist print edition

Britain's muddled half-ban is no way to deal with commercial sex



IN QUIET suburbs and off busy high streets, Britain has a modest trade in rape. Most prostitution, which is legal, is consensual. But worries about abuse are rising. Performed behind closed curtains and often by people who fear to seek help, prostitution has always been a job in which exploitation is possible. Now, like most unappealing, low-paid occupations, it is increasingly carried out by immigrants: eight out of ten London prostitutes are foreigners, police think. Isolated, lacking knowledge of English or the law and sometimes trafficked by criminal gangs, the new arrivals are especially vulnerable. In the past two years police have rescued 251 women whom they believe were trafficked to Britain for sexual slavery.

The situation is shameful, but the proposal the government unveiled this week—to make those buying sex liable to criminal charges if it subsequently emerges that the prostitute was controlled for another person's gain—is no way to remedy it. This newspaper tends toward a liberal view of these matters, but even those who do not will find this amber light a waste of space. Better by far either to criminalise outright the purchase of sex or to legalise it and regulate what ensues.

Britain's dilemma is not unique: all countries have prostitutes of varying sexes and nationalities. Some, such as New Zealand, have tried to minimise the problems that usually accompany the trade—violence, coercion, drugs, exploitation of minors and migrants—by allowing prostitutes to operate openly. This seems both fair to those who choose to sell sex and good for exposing any abuses. Other countries, including most American states, have sought to expunge prostitution's unpleasant aspects by banning it altogether. Sweden, and some imitators, have opted to criminalise only the clients.

No system works brilliantly. But this British proposal would only make matters murkier in a country that already has some of the world's most confusing vice laws. Buying and selling sex is legal now (a situation that older voters, in particular, support, as the chart shows), but most of the things that make it possible—kerb-crawling, soliciting, pimping and brothel-keeping—are not. As the law stands, punters who knowingly have sex with an exploited woman can face charges of rape. The new law would criminalise the oblivious as well.

That is unjust, and inconsistent with the law in other areas. A man who has sex with an underage girl, for example, may be acquitted if it emerges that he was fooled. There are areas where the law rejects ignorance as an excuse, as any tourist caught driving in London's congestion zone knows. But that refers to ignorance of the law, not ignorance of facts that were withheld. Furthermore, women deemed to be "under the control of another" could include those who support their boyfriends, or work with a mate. The most ethical punter could easily be caught out. Good, says Jacqui Smith, the home secretary: it will make potential clients "think twice".

Make your mind up

If that is her view, she should outlaw buying sex altogether, rather than backing a confusing law in the hope that (mostly) men will decide not to risk it. Better still, she should legalise prostitution fully, and tackle trafficking and exploitation with better policing. There is something to be said for either extreme. The proposed compromise is a muddle that will put men in the dark and make women no safer. The Home Office has a track record of poorly drafted legislation on terrorism, which the courts have repeatedly found holes in. The proposal on prostitution is another corker. MPs should scrap it.

North Korea

Going, going, going again

Nov 20th 2008
From The Economist print edition

AFP

The deal to disarm North Korea is unravelling

HE MAY be a few pixels short of a picture these days, but as an auctioneer North Korea's nuclear-capable Kim Jong Il is without peer. Back in 2005 he accepted a generous bid of all sorts of goodies, for a second time, to shut down his plutonium-producing reactor at Yongbyon (an earlier deal had foundered when North Korea was caught cheating). Now Mr Kim seems to be preparing to auction off Yongbyon for a third time: to Barack Obama's incoming administration in America.

North Korean officials are putting it about that they will not honour a verification deal painstakingly negotiated as part of six-party talks that also include South Korea, Japan, China and Russia. Just a try-on? Or does this mark the failure of the six-party marathon? Under way for five years now, this effort aims not just to dismantle Yongbyon, where North Korea made the plutonium for its much-boasted bombs. In 2005 Mr Kim agreed in principle that he would give up his other nefarious nuclear activities and eventually his weapons too.

In order to keep him edging in the right direction this time, the pay-off was to be carefully sequenced as disarmament milestones were reached. It includes: generous energy supplies and other rewards, a lifting of sanctions, diplomatic relations with America, negotiation of a peace treaty to replace the armistice that has endured bad-temperedly since the Korean war, a transformed relationship with the outside world that could help lift North Korea out of its abject poverty and even, at an "appropriate" time, the provision of modern, less proliferation-prone nuclear reactors.

So far Mr Kim has had around half the promised 1m tons of fuel oil and been struck off America's list of states that sponsor terrorism. In return for this and the rest of the oil, he was to put Yongbyon out of action and provide a verifiable list of all his nuclear activities. And there the trouble started.

Mr Kim admits to a plutonium stash, though there is a dispute about its size. He refuses, however, to own up to known imports of equipment for enriching uranium (another potential route to a bomb) that scuppered the very first Yongbyon deal. He will say nothing about nuclear help he is accused of giving to Syria and others. So the other five persuaded themselves that the plutonium count would do for now. But Mr Kim's is blocking that too: his officials say that inspectors will not be allowed either to take reactor samples essential to a proper plutonium accounting, or to stray beyond Yongbyon.

The Delhi gambit

Mr Kim enjoys acting up. The six-party process was meant to make it harder for him to play his

neighbours off against each other. But that is true only if he gets the same agreed message from all. Lately, that hasn't been happening. China refuses to lean on him except in direst times (such as after his 2006 bomb test). Some Democrat voices in America suggest he needs more generous offers, in faster sequence.

To Mr Kim it thus makes sense to await a new bidder in the White House. But there is a more troubling possibility: that he has never had any intention of giving up his bombs. Call it his Delhi gambit. With America's help, India has not only kept its nukes, but has been accepted for all practical purposes, and with extra benefits, as a nuclear power. Why settle for less?

East Asia will never be secure with Mr Kim's finger on the nuclear trigger. Prising it off will take firmer insistence on real disarmament than America, China and the rest have lately been able to muster. At the very least, they should stop pretending that he is living up to the bargain he made in 2005.

Anarchy in Somalia

The lawless Horn

Nov 20th 2008
From The Economist print edition

Pirates are only part of a much bigger problem in east Africa

IT IS tempting to be jaunty about piracy. So what if a few Robin Hoods in skiffs nick the odd tanker off the Horn of Africa? Often enough, the owners pay ransom and nobody gets hurt. Everyone needs a living in these hard times. And if the worst comes to the worst, gunboats can always be dispatched to clean the problem up, just as the British and Americans did off north Africa's Barbary coast at the turn of the 19th century.

It is tempting, but it is wrong. The Barbary pirates caused immense human and economic damage, and the current spate of piracy in the waters of east Africa is now getting out of hand too. On November 15th pirates operating hundreds of miles from the coast seized the *Sirius Star*, a supertanker carrying 2m barrels of Saudi oil (see article). A dozen or so other vessels are already held by pirates. One of them—surrounded by American and Russian warships—contains a cargo of 33 T-72 tanks, enough to tip the balance in a small local war.

The last thing the world needs right now is disruption of one of its busiest shipping lanes and a spike in insurance premiums. But the cause of the present surge of piracy is no less worrying than its consequences. What has made the pirates' audacity possible is the collapse of Somalia. The existence of a vast ungoverned space in Africa's Horn does not just provide a useful haven from which pirates can hunt their prey at sea. It also threatens to transmit shockwaves through a seam of fragile and strife-torn African states from Sudan to the Congo.

How did this happen, and how can it be resolved? The first question is the easier to answer. About 50,000 peacekeepers are currently deployed under United Nations or African Union auspices in east and central Africa in an effort to dampen down various conflicts. In Somalia in 2006, however, the Bush administration tried something different: war by proxy. It gave a green light for Ethiopia to invade Somalia. The plan was for Ethiopia to squash an Islamist movement and reinstate a Somali government that had lost control of most of its territory.

Two years on, the plan has backfired. Abdullahi Ahmed, Somalia's increasingly notional president, admitted on November 15th that a variety of Islamist insurgents once again dominate most of the country, leaving only two cities, Mogadishu and Baidoa, in the hands of his increasingly notional government. Neither Ethiopia nor the African Union ever sent enough soldiers to impose order. Worse, the strongest of the insurgent groups, the *Shabab*, is even more radical than the Islamic Courts movement which the Americans and Ethiopians originally took on. It is suspected of being linked by money to the pirates (who hand over a slice of the ransom in return for protection) and by ideology to al-Qaeda.

So how to resolve the issue? It is not enough just to send more gunboats. Although an Indian warship sunk an alleged pirate vessel this week, and a bigger naval effort could help to keep the sea-lanes a little safer, a long-term solution demands much more. This includes establishing stability inside Somalia itself, depriving the pirates of a sanctuary, and preventing the *jihad*-tinted anarchy there from spilling over Somalia's borders. But since there are no serious military forces available to defeat the insurgents, a proper answer will entail reshaping the country's politics and stepping up attempts to woo the more biddable Islamists—if there are enough left and a deal with them is still possible. Maybe not so jaunty, after all.

Bank bail-outs

Leaving Las Vegas

Nov 20th 2008
From The Economist print edition

No dire mistakes so far; but governments will find exiting banks far harder than entering them

Illustration by Gary Neill

BY THE end of this year governments will be the largest shareholders in most developed economies' financial industries, reversing 20 years of retreat by the state. Unlike some financial innovations of the past two decades, the idea of separating banks from politicians was a good one. From Italy to Japan there is a host of evidence that state-controlled banks come under pressure to direct loans to favoured constituencies and to keep uncompetitive companies alive with subsidised credit (see article). Governments should start thinking about how to avoid repeating those mistakes.

That is hard because they have more pressing worries. Governments are fighting to save their economies from a liquidity trap in which individual banks choose, rationally, to shore up their capital by withdrawing loans from healthy firms and households, but collectively tip the economy into depression.

Banks have a special status in the economy: that is why they receive bail-outs when other companies should not. This brings special responsibilities, reflected in the strings attached to cash injections in both America and Europe. Banks have promised to keep lending to healthy firms. Dividends have been limited until capital is rebuilt. This week senior bankers at Goldman Sachs, UBS and Barclays wisely volunteered to renounce their bonuses (see article). A thorough review by bankers and regulators of incentives in their industry (perhaps followed by tougher capital requirements for risky pay deals) should be enough to see off moralistic threats to set pay limits.

A few impatient outbursts aside, there is, thankfully, little evidence that governments are planning to micromanage lending policies. Few banks have been fully nationalised; most remain listed with largely independent management; most state investments are in the form of non-voting shares. The fine print of the deals gives firms strong incentives to replace state capital with private cash. Most governments expect to sell within two or three years, and hope to make a profit.

If their tenure is to be so brief, why worry about the dangers of politically motivated lending? Taken individually their exit plans look plausible; collectively, they look like a nightmare. With likely holdings of $500 billion or more, equivalent to about a quarter of banks' current market values, they are highly unlikely to be able to offload their stakes as planned at attractive prices, particularly if banks' profits remain weak.

Your too-friendly bank manager

That means governments will end up being shareholders in banks for far longer than they are planning.

This in itself raises the risk of creeping intervention in day-to-day management. And as recession bites the political pressure will surely intensify. Voters will be angry when banks, having been propped up by piles of public money, propose painful job cuts or allow insolvent firms to fail.

Because they will be in it for the long haul, governments need to make plans now to ensure that banks are run on a commercial basis. Ideally, their stakes will be placed in ring-fenced entities managed independently of politicians. The banks in question must be injected with enough capital to ensure they can meet the macroeconomic objective of maintaining normal levels of profitable lending to healthy customers. But the government should then leave lending to the banks and supervision to regulators. Micromanaging either would undermine the commercial character of bailed-out firms. It would also undermine another important objective: getting the best possible return for the taxpayer.

So far the governments of Germany, France and Britain are toying with this model, but it remains to be seen how much genuine independence they are prepared to grant. America's Treasury, meanwhile, plans to hold its stakes in financial firms directly, albeit with some input from independent advisers. Banks need more protection from their new owners than this.

Politicians need to be liked; but bank managers should not try to be loved. Mixing the two roles is dangerous.

On climate change, justice, Heathrow, Pope Pius XII, John McCain, contracts, Barack Obama, gay marriage

Nov 20th 2008
From The Economist print edition

Markets and climate change

SIR – You are correct to argue that the damage done by emissions is best tackled by a tax or price on the emissions rather than a subsidy for clean energy, from the perspective of correcting the market failure associated with this externality ("Green, easy and wrong", November 8th). And you are right that some subsidies, such as those on corn-based ethanol in the United States, have been misguided and damaging. But you are completely mistaken in suggesting that all subsidies to promote cleaner technologies are wrong. The mistake that you make is to suppose that the only relevant market failure is that concerning the emissions externality.

Many of the new technologies are showing, and will show, learning-by-experience: that has indeed been the cost history of key elements of investment in the electricity industry. Creating this experience is a positive externality. The ideas from new R&D in this area constitute another benefit not realised entirely by those who create them.

In this case the world has a very strong reason for the faster development of new ideas and their diffusion than the market is likely to deliver. A further example concerns market failures in buildings, where the shortsightedness or lack of understanding of some renters or buyers together with capital-market constraints imply that beneficial opportunities for energy efficiency may not be taken. In thinking about policies in imperfect economies you have to think beyond just one market failure.

We do indeed need a strong fiscal expansion now. Getting money in people's pockets quickly is vital. But as we do this, let us also recognise that there are very powerful arguments for combining the fiscal expansion with a set of policies that will both protect the environment and foster a set of technologies and investments that can and should be strong drivers of growth.

Far better to bring these policies into a reflationary package than simply throwing money at the economy without thinking of the future of growth and of the planet.

Nicholas Stern
Chairman
Grantham Research Institute on Climate Change and the Environment
London School of Economics
London

SIR – I applaud your effort at highlighting policies that combat climate change. However, I take exception to your conclusion that governments have a poor, and therefore worthless, record in choosing technologies. It is not as simple as punishing the bad guys and rewarding the good guys. The amount of time we have left before total devastation of the climate is the real imperative.

Many scientists say that global warming is already happening (witness the anomalies in the current weather). If you're standing under an ice shelf that is melting, the real question is "How long before it breaks?" Considering this, I think you'd agree that the seriousness of the problem demands that we use all tools at our disposal, including subsidies, as soon as possible.

Bill Hurley
San Antonio, Texas

Seeking justice

SIR – The question, “How far can America’s legal system be applied to foreign human-rights cases?”, misses a crucial point (“Test case”, November 1st). There are over 1,000 human-rights abusers seeking a haven in the United States. The Alien Tort Claims Act is a crucial tool in holding them accountable. In order to hear an ATCA case a court must have personal jurisdiction over the defendant, which means that he or she must live or be present in the United States. I know firsthand that filing suit in the United States is often the only option available to victims or their relatives for heinous acts such as torture and extrajudicial killing.

You acknowledge that use of the act has increased since 1980, when a landmark case was brought by Dolly Filártiga against a former Paraguayan inspector of police living in New York for the torture and murder of her brother. The significance of the many subsequent cases brought by such victims against abusers of human rights who seek impunity in the United States should not be discounted. They are critically important both for the survivors of abuse and to ensure that America does not become a haven for their tormentors.

Pamela Merchant
Executive director
Centre for Justice & Accountability
San Francisco

Flight paths

SIR – *The Economist* noted that since 1990 the route network at Heathrow has decreased, while transfer traffic has increased (“The right side of the argument”, November 8th). However, the subsequent claim that transfer passengers are of limited economic value is incorrect. It is in fact evidence of the market forces caused by a capacity-constrained airport.

Slots at Heathrow trade for up to £25m ($37m), clear evidence that given new capacity, the network would grow. Until Heathrow is permitted additional capacity, airlines will understandably make the rational, economic decision to focus the limited slots available to them on the most profitable routes. This is tenable in the short term, but over the long term Britain’s economy will suffer from not being able to offer direct links to cities in the growing economies of India and China. Around two-thirds of routes at Heathrow are supported by transfer passengers who make up 25-40% of the people who fly on them. Without these passengers, major business destinations such as Bangalore, Chennai and Seattle would all disappear.

It is naive to think transfer passengers do not offer any wider economic benefits—the direct, global links that these passengers support are Britain’s gateway to the world economy. Heathrow is Britain’s only hub airport and a vital economic asset. If Heathrow is to stay in the global league, then a third runway is vital to keep it, and by extension Britain, competitive.

Tom Kelly
Communications director
BAA Airports
London

SIR – Airlines use smaller aircraft than are necessary to catch the time-conscious (and high-paying) business-class passenger. Each weekday there are 17 flights from Heathrow to Glasgow and 17 to Frankfurt. Both are duopolies, with on average a flight every 45 minutes during working hours. Total capacity is around 3,000 passengers per day. It is obvious that there is potential for freeing up runway capacity at Heathrow (and at Frankfurt).

Airlines could be restricted to six slots per route a day. Or the total capacity offered on the route could determine the aircraft’s minimum average size. With the introduction of the Airbus 380 this would even work on the Heathrow to New York JFK route. Currently, there are 18 flights a day between these airports, only five of which are Boeing 747s. Larger aircraft also mean cheaper seats for those not at the front, and better fuel economy per passenger.

Philip Home
Newcastle upon Tyne

The legal basis of property

SIR – The proposal to allow the government to "rejig" contract terms previously agreed to between private parties is a slippery slope that would spawn immediate lawsuits alleging tortious interference and partial condemnation (Economics focus, October 25th). If your newspaper regards that plan as the best option on the table, we truly are in a *zugzwang*. A house under water may constitute a force majeure; a mortgage that is under water does not.

Moreover, "no recourse" home loans are not the standard in America. Most lenders have the right to pursue a deficiency judgment against a defaulting owner, and when other assets exist, frequently do so.

Veggo Larsen
Palmetto, Florida

Feedback loop

SIR – Lexington partly attributed John McCain's problems during the election to media bias (November 8th). He referred to a study from the Pew Centre's Project for Excellence in Journalism, which found that unfavourable media stories about Mr McCain outnumbered favourable ones by more than three to one. Lexington did not mention that the same report said the coverage of Mr McCain began positively, but turned sharply negative following his reaction to the crisis in financial markets. The media's reporting about Barack Obama became more positive, but most of it was about the state of the race, opinion polling, the electoral map, tactics and so on.

Balanced reporting does not mean that two political candidates should have an equal number of positive and negative reports. It may simply be that the actions taken by a candidate warrant more unfavourable reporting.

Michael Chow
Thousand Oaks, California

Withholding the blessing

SIR – The controversy surrounding Pope Pius XII misses an important point ("The weight of history", October 25th). The real question is the Catholic church's impulse to canonise, rather than the historicity of Pius XII's anti-Semitism. Many clergy in perilous positions throughout Nazi-occupied Europe found the strength to speak out when Pius XII, thoroughly insulated from physical harm, did not. Whatever his true proclivities, his actions, or lack thereof, were far from saintly, and that should be enough to impede canonisation.

Noah Beckwith
London

Canada leads the way

SIR – I found the opening statement in your leader on Barack Obama's victory a little curious ("Great expectations", November 8th). You said that now "America can claim more credibly than any other Western country to have at last become politically colour-blind". If we are talking about progress it may be splitting hairs to concentrate on colour alone. Britain elected a female prime minister in 1979. Canada has had Sikhs and Chinese in the cabinet.

Canada's current governor-general, who represents the queen as head of state, is a black woman. She succeeded a Chinese woman. Neither were born in Canada, hailing from Haiti and Hong Kong respectively. Although Mr Obama's election may be a major milestone for the United States, it seems a little quaint to a Canadian to suggest that our southern neighbour is suddenly politically colour-blind, or that it has the most credible claim among Western nations to have that status. The view from the north may be that it is nice to see them catching up. Who knows? Maybe some day they'll amend their

constitution to allow an immigrant from whatever origin to rise to the top spot.

Andrew Work
Hong Kong

Trouble and strife

SIR - Proponents of the ban on gay marriage in California would do well to consider first-marriage divorce rates, estimated at 41% in America ("Dispatches from the culture wars", November 8th). It would appear that the $70m raised by both sides of the campaign would have been better spent on marriage-counselling initiatives.

David Annanders II
Beverly Hills, California

Sudan

A gleam among the ruins

Nov 20th 2008 | ABYEI, JUBA AND KHARTOUM
From The Economist print edition

After years of civil war, three new factors may bring hope to Africa's biggest country

Panos

WITH his outstretched arms shaking in gestures of anger and bewilderment, John stands in the charred remains of his little family compound in the central Sudanese town of Abyei. The four *tukuls*, or traditional huts, that used to house his wife and nine children have been incinerated. His pickup truck, too, has been overturned and burned. The attack happened only five months ago, but already the weeds and brush of the surrounding swampland are covering the last traces of a happy family life.

Abyei was once a thriving market town. But it is also the capital of a region that straddles the bloody fault-line in Sudan between the Muslim Arab tribes of the north of the country and the African, mainly Christian and animist, tribes of the south. In May heavy fighting broke out in Abyei between the northern government's army and the southern Sudan People's Liberation Army (SPLA), which are supposed to have stopped fighting each other since the Comprehensive Peace Agreement (CPA), signed in 2005, ostensibly ended more than 40 years of north-south war.

The firefight that destroyed John's compound was bad enough. But the whole town was looted, and then burned to the ground, in the days that followed the fighting. The culprits were the traditional enemies of the Dinka people, the armed militias of the Arab Misseriya tribe. All John's most valuable possessions were taken: his generator, the two small television sets that it powered and the family's cooking utensils. By all accounts, much of this has been put up for sale in the Misseriya town of el-Muglad, about 150km (93 miles) to the north. The market there has been nicknamed "Abyei" after the plentiful supply of goods on sale from the looted town.

At least John has a good job, as a driver for the United Nations. He may be able to rebuild his life. Thousands of his fellow Dinka in this impoverished region are not so lucky. Forced to flee Abyei, they now live in a sprawl of hastily erected huts about 40km south, at Agok, where they survive largely on help from foreign aid-workers. In the jargon of international relief agencies, they have become "Internally Displaced Persons". And like many other millions of Sudanese who are refugees in their own country, these Dinka have no plans to return to the little that is left of their old way of life until security improves—which may take a long time. The charred remains of John's former home are virtually opposite the front entrance to the UN military base in Abyei. Those soldiers could do nothing to help him.

The story of Abyei is stark proof that the underlying causes of north-south conflict in Sudan have not changed. Much of it is sparked by feelings of marginalisation. Just to the east of the town, for example, are the Chinese-run oilfields around the town of Heglig. These supply the northern government in

Khartoum with most of its substantial revenues and help to fund a building and consumer boom in the capital. But the local Dinka derive no benefit from this money. They are not even allowed into the area around Heglig, though it is part of their old homeland.

Mistrust also continues between the largely nomadic Arab tribes of the north, like the Misseriya, supported and armed by the northern Islamist government for its own political purposes, and the settled African farmers of the south, both Christian and Muslim. Migrations of heavily armed Arab cattle-herders into the lusher wetlands of the Dinka at the beginning of each dry season have caused violence for decades. This year’s migrations south have already started, and, especially after the torching of Abyei, everyone is preparing for more trouble.

Yet the fighting between northern and southern Sudan is only one part of it. The western province of Darfur is also riven by a war between the government and rebel forces that erupted in 2003. At first this was a straightforward battle pitting the Sudanese army, together with the Arab militias, the infamous *janjaweed*, against two main rebel groups, the Justice and Equality Movement and the Sudan Liberation Army. Now, however, the nature of the conflict in Darfur has mutated, making the violence more unpredictable and widespread and the task of getting a lasting peace deal that much harder. The *janjaweed* militias have fragmented, fighting among themselves and occasionally against the Sudanese army, especially when they have not been paid. The rebels, too, have fractured into about 30 groups of varying size and seriousness. These roam around the province, and several are kidnapping and killing the very aid-workers who help their own people.

The continuing violence has produced, according to the UN, 300,000 internal refugees in Darfur since January alone, the highest rate of displacement for several years. About 2.7m people are now crowding into overflowing makeshift camps in Darfur itself, and about another 300,000 are in camps over the border in Chad. In all about 5m Darfuris, out of a population of 6m at the last official count in 2002, are either in camps or are relying on aid to survive. And as many as 300,000 have probably died as a result of the conflict.

With 17,000 or so local and foreign aid-workers in Darfur trying to help the victims, the relief operation is still the largest of its kind in the world. But the work is more and more hazardous, and access to the refugees has become increasingly restricted. Eleven humanitarian workers have been killed this year and 179 kidnapped. Some 237 aid vehicles have also been hijacked this year, already double the number for 2007. The UN in Darfur has moved to its highest level of alert before full evacuation. All non-essential staff have left.

The United Nations African Mission in Darfur (UNAMID), the peacekeepers who have been mandated by the Security Council and the African Union to prevent the violence, remain based at el-Fasher, the capital of Darfur. But with only about 10,000 often ineffectual troops and police, well short of the 26,000 that were promised by the end of this year, UNAMID remains pretty impotent. As a result, it is already losing the respect of Darfuris. They had hoped that this force, unlike the previous pathetic outfit provided by the African Union, would finally give them protection from the marauding *janjaweed* and bandits who kill and rape them. They were wrong.

Breaking the stalemate

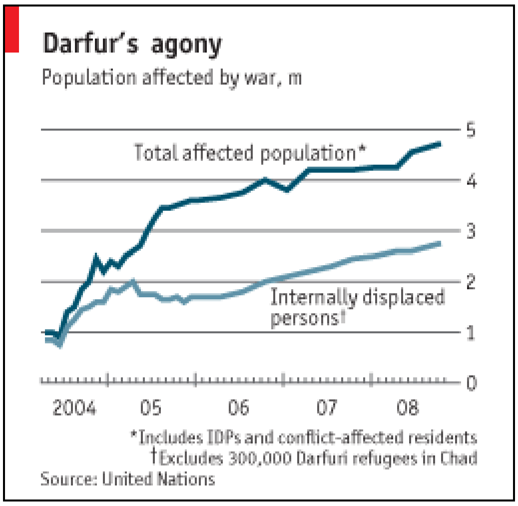
These trend-lines in Darfur have become depressingly familiar over the past few years. The various “peace processes” to try to resolve the conflict have repeatedly foundered on a mixture of government intransigence and intrigue, rebel divisions and foreign meddling, notably by Chad. For all the vast international effort put into improving the situation in Darfur, the thousands of UN and diplomatic man-hours and the hundreds of millions of dollars in aid, little has changed.

The same stagnation and sense of helplessness is evident elsewhere in Sudan. The peace agreement of 2005 between north and south agreed, for example, to share the wealth, integrate the two sides' armies and settle the boundary between them. All these proposals were designed to create the New Sudan that southerners dream of: an integrated, federal and multiethnic nation that, for the first time in decades, could live at peace with itself. In fact, progress in all these areas has been slow or almost non-existent. Neither the northern government nor the Government of South Sudan, which now runs the semi-autonomous south, has invested much in making unity “attractive”, as the CPA demands. The peace agreement gives southerners the right to hold a referendum to secede from Sudan in 2011. At the moment, this is what many southerners are really preparing for.

But in the past few weeks three newish factors have coalesced to create a set of circumstances that could shake the country up: for better, if matters are handled carefully, or for much worse. The first is the prospect of national elections next year; the second is the beginning of proceedings against President Omar al-Bashir by the International Criminal Court (ICC) on charges of genocide over Darfur; and the third is the election of Barack Obama as the next president of the United States. Each of these factors, on its own, would not bother Mr Bashir much. But the three together are now putting considerable pressure on him to change course in Darfur and get serious about peace with the south.

Elections were forced on the northern government and the SPLM, the political wing of the SPLA, by foreign donor governments as their price for giving billions of dollars-worth of money to rebuild Sudan after the 2005 peace deal. These elections have always offered the best chance of ending Mr Bashir's repressive government, which came to power by overthrowing Sudan's last democratic government in a coup in 1989.

Mr Bashir and his henchmen in the National Congress Party (NCP) are genuinely fearful of elections. They know that if even vaguely free and fair ballots were to take place throughout Sudan, they would lose heavily. Salva Kiir, the leader of the SPLM, might well win instead if he ran as the candidate promising to stand up for the marginalised people of all Sudan, in the south, the east and Darfur; there are plenty of them. Such an alliance might at last create the New Sudan, the vision of John Garang, the first leader of the SPLM, who died in a helicopter crash in 2005. A census, albeit an imperfect one, has already taken place to form the basis of voter registration, and under the terms of the CPA an election should take place by next summer.



The Obama factor

If Mr Bashir loses, it may also be easier for the ICC to haul him off to The Hague. Again, despite what they say in public, not only Mr Bashir but the entire government is

anxious about the ICC. The regime's hardliners—the heads of the army, the intelligence and the internal security services, all directly responsible for much of the mayhem in Darfur—know that they could be next on the indictment list. Many people in Sudan, and almost everyone in Darfur, would be delighted if they were. The whole country is waiting to see whether the ICC judges act on the chief prosecutor's recommendation, made in July, to issue a warrant for Mr Bashir's arrest. A decision is expected towards the end of December.

And now there is President-elect Obama to contend with. Sudan may be the only country in the world where President George Bush is popular and the Democrats loathed and feared, at least by the regime. Mr Bush gave huge political backing to the peace between the north and south, but the Sudanese also remember that it was President Bill Clinton who launched an attack on Sudan in 1998. He fired cruise missiles into a pharmaceutical plant in Khartoum North (mistaking it for a bomb-making factory) in retaliation for al-Qaeda attacks on American embassies in Kenya and Tanzania. The present regime was the incubator for Osama bin Laden and al-Qaeda in the mid-1990s.

The Sudanese government knows that a new Obama administration will probably be full of former Clintonites who have spent the past eight years furiously organising campaigns against Sudan over what they call the "genocide" in Darfur. These people, like Gayle Smith, tipped to be Obama's senior diplomat in charge of African affairs, all have long experience of Sudan and are fierce critics of the Sudanese government. They are less likely than their Republican predecessors to go softly on Mr Bashir's government for the sake of the titbits of intelligence on al-Qaeda that the Sudanese intelligence services like giving to the Americans.

This matters tremendously to the Sudanese. The government's priority has always been to come off the American list of state sponsors of terror, to repair its severed relations with the West in general and to see the end of the economic sanctions against it. America can deliver all this in return for improvements in Darfur, elections and much else. The Obama factor is already at work here. The argument to the Sudanese is: "Cut a deal now—or expect much worse come January." The result is, as one Western diplomat puts it, "a government in full conciliation mode", firmly on the back foot.

Appeasement and threats

So Mr Bashir has been striking all the right notes recently. The government has been slightly less obstructive to UNAMID, for example. And last week, at a posh forum on Darfur in Khartoum, with foreign diplomats, ministers and even the odd head of state present, Mr Bashir endorsed, in a general way, a document that could give the Darfur rebels most of what they want. Compensation, the return of refugees to their homes and the appointment of a new vice-president for Darfur are all, apparently, on the table. The Qataris, fresh from success in Lebanon, have volunteered to mediate with the rebels and to host a peace conference. There is a vague hope that Qatar will fork out the hundreds of millions of dollars in compensation that may be needed to win the rebels over.

The president even announced, dramatically, a ceasefire by government forces in Darfur. This grabbed the headlines, but he has announced a ceasefire several times before and nothing has ever happened. This makes many people sceptical of his real intentions. The rebels, who were unrepresented at Mr Bashir's forum, immediately rejected his ceasefire call.

Indeed, as the same Western diplomat points out, all Mr Bashir's recent promises to reform his ways are, as usual, "easily reversible". He is trying to do just enough to persuade countries at the UN to vote for a deferral of the ICC case against him, as they have the power to do. Most African and Arab countries support him on this. But he needs to convince some Western countries, and preferably America as well, while the going is relatively good.

And if no one is persuaded by Mr Bashir's promises of future good behaviour, foreign countries certainly have to think hard about the Sudanese government's likely response if the ICC does issue its arrest warrant. Most opposition politicians presume that, at the very least, full elections will never happen. A lot of semi-plausible excuses will be trotted out: an incomplete census, a long rainy season, the lack of voter education. But ultimately, as Adam Madibu, the deputy chairman of the opposition Umma party, says: "The election is the best way to get the transformation of Sudan, and we will have lost it." And the SPLM leadership, unfortunately, may well collude in that. They fear the schisms and divisions that elections could open up in their own ranks. An unaccountable SPLM would be perfectly happy to get through to its own referendum in 2011 without elections.

Losing the opportunity to vote Mr Bashir out of power would drive many Sudanese to despair. There are dark mutterings of a coup against him by moderates in his own party. They could at least get a new, more palatable figurehead for international consumption and then shield Mr Bashir from the ICC. But this would hardly “transform” Sudan. Another, more remote, possibility is a popular uprising. There have been two against unpopular military rulers in the years since Sudan’s independence in 1956. But the security apparatus is more pervasive and onerous now than it has ever been, especially in Khartoum.

AFP

Bashir at bay

Already, NGOs on the ground in Darfur are suffering from a government backlash prompted by the ICC charges against Mr Bashir. Harassment by security officials has got much worse. The goons have spent days in NGO offices haranguing staff to hand over sensitive documents and computer files which, they suspect, could have been used as evidence against Mr Bashir. In particular, officials have been targeting projects that help women recover from sexual violence. The massive use of rape as a weapon in the army’s counter-insurgency war is a critical part of the ICC case. If a warrant is issued, the harassment will surely worsen to the point where many counselling projects will be shut down, as at least one has been already.

Mr Bashir could also turn on his former enemies in the south by simply reducing the share of oil money they get. Already, there is concern about the incompetence of the government there and the lack of economic and social development. A large proportion of the SPLM’s small revenue goes on new weapons, such as, it is widely assumed, the T-72 tanks now stuck off the Somali coast. If a weak south does move towards secession against a surly, hostile north, diplomats fear that the resulting conflict would create a whole swathe of instability in Africa, from Somalia across south Sudan to eastern Congo—another place where a peace agreement has unravelled with awful consequences.

Among Mr Bush’s first orders to his National Security Council in January 2001 was the drawing up of a new policy on Sudan. Mr Obama, who will be taking office more or less at the moment when the ICC is expected to issue its warrant, needs a new policy even more badly. But at least he will not be short of advice.

Spending and the economy

The end of the affair

Nov 20th 2008 | WASHINGTON, DC
From The Economist print edition

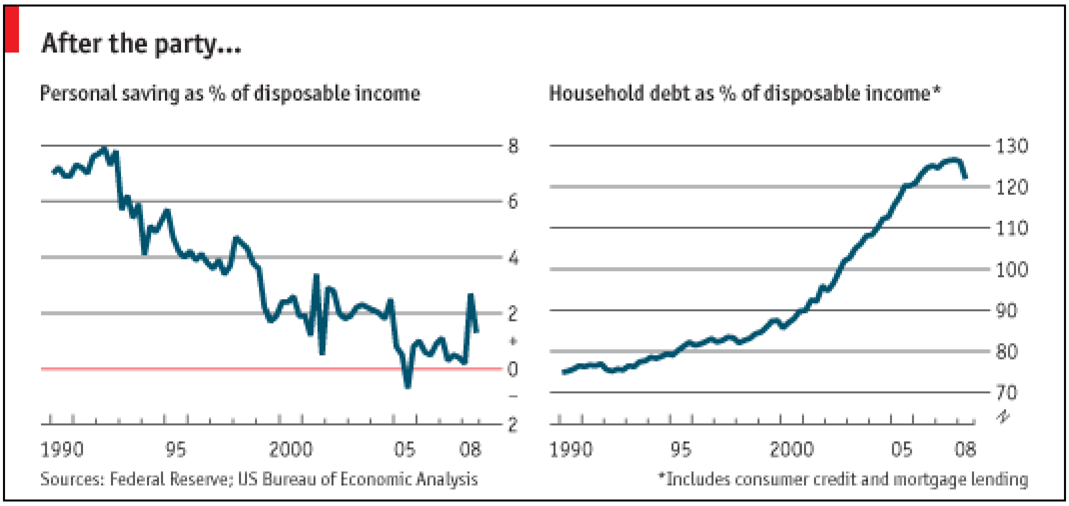
America's return to thrift presages a long and deep recession

Getty Images

DEBBIE JEFFRIES could see it coming. When she manned the cash register at Linens 'n Things, the household-goods chain where she has worked for 14 years, a customer would sometimes open her wallet and display 15 credit cards. "That people can pull out that many credit cards—that's insane. You say, whoa, maybe that's why we're here. We have so much debt."

Ms Jeffries cut up her own credit card several years ago when the balance became unmanageable, but still became an indirect victim of the credit crunch that is now dragging America into recession. Linens 'n Things filed for bankruptcy protection in May; in October, unable to find a buyer for its stores, it began to liquidate itself. A sign in the window of Ms Jeffries' store in suburban Maryland invites anyone interested in buying the fixtures to see the manager. Ms Jeffries expects to be out of a job by the end of December.

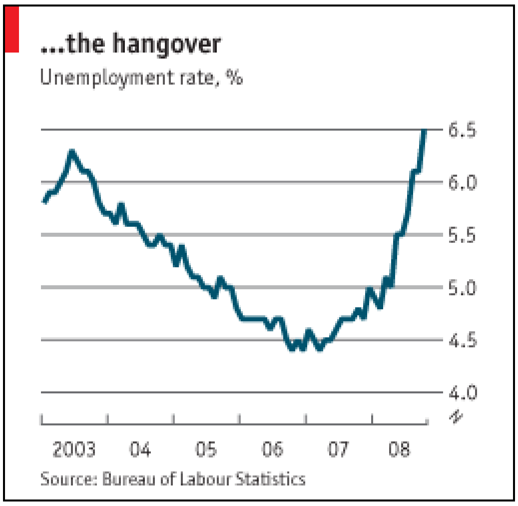
An important reason why the American economy has been so resilient and recessions so mild since 1982 is the energy of consumers. Their spending has been remarkably stable, not only because drops in employment and income have been less severe than of old, but also because they have been willing and able to borrow. The long rise in asset prices—first of stocks, then of houses—raised consumers' net worth and made saving seem less necessary. And borrowing became easier, thanks to financial innovation and lenders' relaxed underwriting, which was itself based on the supposedly reliable collateral of ever-more-valuable houses. On average, consumers from 1950 to 1985 saved 9% of their disposable income. That saving rate then steadily declined, to around zero earlier this year (see chart). At the same time, consumer and mortgage debts rose to 127% of disposable income, from 77% in 1990.



Those forces have now reversed. The stockmarket has fallen to the levels of a decade ago. House values have fallen 18% since their peak in 2006. Banks and other lenders have tightened lending standards on all types of consumer loans.

As a consequence, consumer spending fell at a 3.1% annual rate in the third quarter (in part because tax rebates boosted spending in the second), the steepest since the second quarter of 1980 when Jimmy Carter briefly imposed credit controls. More such declines are likely to follow. Richard Berner of Morgan Stanley projects that in the 12 months up to the second quarter of next year real consumer spending will fall by 1.6%—a post-war record. “The golden age of spending for the American consumer has ended and a new age of thrift likely has begun,” he says.

Even before this crisis hit, saving was bound to rise. Baby-boomer Americans have saved far less than their parents, according to McKinsey Global Institute, the consultancy’s affiliated think-tank, and are unprepared for retirement. Drawn out over many years, a rise in saving would be a good thing. But compressed into a matter of months, it would be downright dangerous. But the possibility cannot be dismissed. Bruce Kasman and Joseph Lupton of JPMorgan predict that the saving rate will jump to around 4.5% by the end of next year, the sharpest jump in so short a time in the post-war period.



Patricia Baker, a part-time hostess at a Maryland country club, is spending $1,000 on Christmas this year compared with $3,000 last year. She worries about the economy. People at the club still play golf, but instead of ordering lunch and a beer, many just buy crackers and a soda. She also has less to spend. Illness kept her husband off work for a bit, and they fell behind on payments on their two credit cards. The credit-card company docked his wages to pay off the first, and she is still battling over the second. She expects her monthly mortgage payment to reset next year from $1,700 to $2,000 or more, and doubts she can find anything better: “Banks aren’t going to touch anyone that doesn’t have perfect credit.” She now pays cash—as she did for two pillows in the Linens ’n Things closing sale.

This compulsory return to thrift will be deeply painful; consumer spending and housing are almost three-quarters of GDP. Of the 1.2 million, or 0.9%, decline in jobs since December, about 700,000 are directly related to consumers: retail trade, transportation manufacturing and home-building. The rise in unemployment, from 4.4% in 2006 to 6.5% in October, is nearing that of 2001-03 and is not over. On November 19th Federal Reserve policymakers disclosed they expect the recession to last until mid-2009. Their inflation worries have evaporated; indeed, consumer prices plunged a record 1% in October from September, and by 0.1% excluding fuel and food, the first such decline since 1982. The Fed’s vice-chairman, Donald Kohn, said outright deflation “is a risk out there but it’s still small”.

The risk is that the recession will be longer and the recovery weaker than expected as consumers retrench. Until 1982 recessions were often induced by the Fed to weaken demand and reduce inflation. Declines in GDP were dominated by business inventories and interest-sensitive spending such as cars and houses. Once the Fed eased money, spending sprang back.

Since then inventories have become less important to the business cycle and deregulation and financial innovation mean higher interest rates take longer to affect spending. Expansions are marked by sizeable growth in assets and debt. When the cycle turns, falling asset values and debt reduction weaken the kick of lower rates, producing anaemic recoveries with rising unemployment. The Fed has already lowered its interest-rate target to 1%, but it is fighting gale-force headwinds as lenders reduce their loan portfolios. Citigroup recently told many of its credit-card holders that it was raising their interest rates by up to three percentage points.

Lenders once routinely pooled credit-card, student and car loans into securities and sold them to capital-markets investors. Joseph Astorina of Barclays Capital says no one wants to buy such securities now for fear that some overextended investor will dump its own holdings a week later, driving their values down sharply. The issuance of credit-card-backed securities, which averaged $8 billion a month in 2007, was zero in October, he says.

Alan Greenspan, the former Fed Chairman, told *The Economist* this week that banks were satisfied with capital equal to 10% of their assets in the past. Now, to soothe depositors and investors, they will need a much higher ratio—perhaps around 15%. Until they get there, through a combination of raising new capital, reducing dividends and share buybacks, and shedding assets, lending will be constrained.

This makes a strong case for more government stimulus. Lawrence Summers, the former treasury secretary and a candidate for the same post under Barack Obama, said on November 17th that it should be “speedy, substantial and sustained over a several-year interval”. Fiscal stimulus at this stage would replace some of the demand which has been wiped out by the credit crunch. It won’t prevent a recession; but without it, the recession is guaranteed to be far worse.

Stimulus packages

To spend or not to spend

Nov 20th 2008 | WASHINGTON, DC
From The Economist print edition

Bail-out fatigue has hit Washington. Can the country wait for it to wear off?

A NEW Congress and a new president take office next year, and the ascendant Democrats have big plans to rescue the economy. But with American carmakers flailing and the general outlook dire, Democratic leaders decided to try for a down-payment on their fiscal-stimulus plans this week, hauling the outgoing Congress back to Washington to vote on it. As *The Economist* went to press, it looked as though they would have little to show for their lame-duck session.

On November 17th Harry Reid, the Senate majority leader, laid out plans for a $100 billion fiscal stimulus, which included a $25 billion car-industry bail-out, $38 billion for cash-strapped state governments, an estimated $6.5 billion to boost unemployment benefits and $13.5 billion to fund infrastructure improvements. Governors such as New York's David Paterson say they have shovels ready to dig as soon as the federal government allocates money to their projects.

But as of the morning of November 20th, the Republican minority in the Senate looked poised to use the rules to block everything but the increase in unemployment payments. There is a chance the Democrats will call another lame-duck session in December. But for now it appears that any big stimulus plan will have to wait until the new year.

By then, the Democrats will have a much freer hand, with a bigger Senate majority. What will be on their agenda? Mr Reid's proposals, many of which Barack Obama favours, will no doubt reappear. During the campaign, Mr Obama also promised to cut taxes for the middle class and send $500 cheques out to taxpayers. He proposed a tax credit for businesses that hire new workers, a relaxation of penalties for withdrawing money from retirement accounts and a moratorium on home foreclosures. Many Democrats have spoken about investing in the "green economy"; Mr Obama, for one, says he wants some spending to go on improving energy efficiency in public buildings, and he has promised to create 5m green jobs.

Mr Obama's stimulus plans add up to $175 billion over two years. Some are looking at even bigger options. Gene Sperling, a Democratic economic adviser, recently said that a $300 billion-400 billion package should be a starting point. Economists at Goldman Sachs reckon it should be closer to $500 billion. Large sums. But with six weeks to go before the Democrats take over, will the money come too late?

The Senate

Inching to 60

Nov 20th 2008 | WASHINGTON, DC
From The Economist print edition

Democrats need only two more seats for a supermajority

AP

SOME glass ceilings are harder to shatter than others. America may have chosen its first black president. But there is another minority whose members are disproportionately poor, often languish in jail—and are still, in many states, barred from voting. Ted Stevens' valiant attempt to become the first convicted felon elected to the Senate ended in failure this week, bringing the Democrats within two seats of a filibuster-proof majority.

Uncle Ted (left), as Alaskans call him, was the longest-serving Republican senator. He hosed his home state with federal cash for roads to remote hamlets and huts for tired hikers. The Almanac of American Politics described him as "less a legislator than [a] philanthropist...although of course he is not spending his own money".

His seat was long thought impregnable. In 2002 he outspent his opponent by 2000 to one (really) and won 78% of the vote. But just before this year's election he was convicted of concealing $250,000 worth of gifts from a contractor. He still won nearly half the vote. But after an excruciatingly long vote count, his Democratic opponent, Mark Begich, the mayor of Anchorage, declared victory on November 18th.

Just two Senate races are still undecided. In Minnesota, the incumbent Republican, Norm Coleman, holds a microscopic lead—215 votes out of 2.9m cast—over the Democrat, Al Franken, an ex-comedian and the author of a thoughtful book called "Rush Limbaugh is a Big Fat Idiot". A hand recount will take weeks.

In Georgia, Saxby Chambliss, the Republican incumbent, beat Democrat Jim Martin by 110,000 votes. But since he narrowly failed to win 50% of the vote, a run-off will be held on December 2nd. Mr Chambliss will probably win it. But if he doesn't, and Mr Coleman loses his recount, the Democrats will have a 60-seat supermajority and the power to override filibusters and pass any bill they please.

This tantalising prospect is why Joe Lieberman was not crucified this week. Mr Lieberman was Al Gore's running-mate in 2000, but upset Democratic activists by loudly supporting the war in Iraq. A primary challenge cost him the Democratic nomination for his Senate seat in 2006, but he ran as an independent and won. He votes with his old party most of the time, but backed John McCain for president because of his stance on Iraq. Apoplectic activists wanted him stripped of his chairmanship of the Homeland Security committee and kicked out of the caucus. But his Senate colleagues chose only to remove him from heading a subcommittee.

The other senator in the spotlight this week was Hillary Clinton, tipped to become secretary of state. Her fans say she is just the sort of clever, hard-working woman for the job. Her critics fret that her husband's financial baggage would create conflicts of interest. As *The Economist* went to press, no decision had been announced.

Barack Obama's BlackBerry

Subject: Guantánamo

Nov 20th 2008
From The Economist print edition

The next president has been told that, for security reasons, he will have to give up his beloved mobile device. We've intercepted his last e-mails: here's the first

"YOUR promise to close Guantánamo is popular. Including a clear announcement on this in your inaugural will make for great headlines. But if you have to give a firm date for closure, kick the can at least a year down the road. Remember: W. wanted to close the place too, but disposing of the 260-odd (in every sense) inmates still incarcerated there won't be easy.

A few dozen are small fish—not to mention innocents—who we could easily send home. But there are some whose governments don't want them, and others (eg, those Chinese Uighurs) whom their governments might torture or execute. International law says you can't repatriate them. We'll ask friendly countries to take a few, but you will end up having to let most go free in the United States. Some might well return to the battlefield after all we've done to them. But as General Barry McCaffrey has said (we'll keep the quote handy), it's going to be cheaper and cleaner to kill them in combat than sit on them for 15 years.

Then there are those 80 or so really hard men. President Bush wanted to try them, and could never get the law right. So now you have to deal with them. Khalid Sheikh Mohammad has "confessed" he was the brains behind 9/11. God knows what the Pakistanis or the Agency did to him in prison. But we can't just let him go, and we can't just let him rot, so you have to give him and his accomplices their day in court. The first big question for you is: what kind of court? You don't like Bush's military commissions. But if you set up special security courts with special, meaning laxer, standards of procedure and evidence, they will be called kangaroo courts too. And if you opt for regular criminal trials or courts-martial you run the risk that they will throw out evidence extracted by waterboard. Dare you let a 9/11 mastermind walk free?

Worse yet, there's a group the Agency is sure are dedicated terrorists but on whom we have nothing that can stand up in any sort of court. The human-rights purists say you must bite the bullet and set these unconvictables free in America. But if you follow their advice it won't just be Republicans who will say you are putting the republic in danger. You'd theoretically have a let-out if you could let these guys go and keep them under surveillance. But the Feds claim they can't guarantee fail-safe, indefinite 24-hour

monitoring of a group this size. Can we afford to take that risk?

Safer would be to move them to the mainland, where they would be held under some kind of preventive detention devised by your legal team. We can call this “temporary”, but our base will bleat that you have closed Guantánamo only by creating a new prison where America continues to detain people convicted of no crime. And they’ll have a point. Over to you.”

Green trends in California

Cooling off

Nov 20th 2008 | LOS ANGELES
From The Economist print edition

The economic slowdown is having one good effect

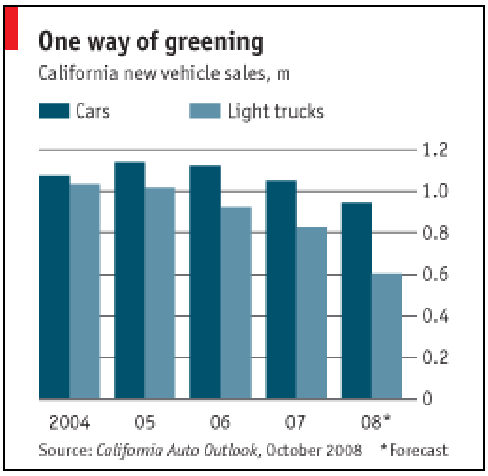
CALIFORNIA tried to save the world again this week. Arnold Schwarzenegger, the state's governor, rounded up politicians and officials from across the globe (expending quite a bit of carbon) and urged them to tackle climate change more aggressively. To set an example, he ordered state power companies to obtain one-third of their electricity from renewable sources by 2020. California is indeed leading the way in cutting greenhouse-gas emissions—but not for the reason it might want.

Mr Schwarzenegger became an environmental hero two years ago, when he signed a bill committing the state to cut greenhouse-gas emissions to 1990 levels by 2020. California's lead was followed by 17 other states, Congress and Britain. Many one-upped California by adopting even more ambitious targets. A slight stain on this otherwise heartwarming picture was that, until recently, California appeared to have little chance of hitting its own target. Then the state's housing market collapsed, petrol prices soared and the economy slid towards recession.

The greenest news comes from the transport sector, which accounts for almost 40% of the state's greenhouse-gas emissions. Petrol sales in July—the last month for which statistics are available—were the lowest since 2000. Oil has got a lot cheaper since then, but national figures from refineries suggest demand has not recovered much. Californians stayed off the roads this summer because of the high price of petrol. Now they may be driving less because they have less money to spend in shops and fewer jobs to commute to. At 7.7%, the state's unemployment rate is the fourth-highest in America.

When they do drive, Californians squeeze into smaller cars. Demand for wheels of all kinds has slumped since easy credit disappeared. But big vehicles, which are both more expensive to buy and costlier to run, are especially unpopular. The California New Car Dealers Association forecasts a 10% decline in car sales and a 27% decline in sales of heavy vehicles this year (see chart). Although $4-a-gallon petrol is now a memory, it remains a potent one. "People got scared," says Terry Shaier, a Nissan dealer in Long Beach.

Homes are less polluting, too. Until recently much of California's job growth and virtually all of its population growth was away from the coast, in the Central Valley and Inland Empire. Such areas are sprawling and hot in summer, necessitating lots of driving and air-conditioning. The shift in population alone made it virtually impossible for the state to cut its emissions much.



The drift to energy-intensive regions now seems to have abruptly slowed. Inland housing markets that were booming a few years ago are now so awash with foreclosed homes that building has become futile. Housing starts in the Inland Empire have fallen by 82% in the past three years, compared with 47% in Los Angeles. Builders in foggy San Francisco are actually busier than they were. The balance of new homes has also shifted away from houses and towards flats, not because demand for them is increasing but because it is harder to suddenly stop building a block of flats.

The economic downturn will probably make it harder to enact environmental legislation. Carmakers are already digging in their heels against a state proposal to impose fees on the thirstiest vehicles. Efforts to force cities to build more densely have met with protests. And, despite the warm reception that greeted his recorded message at this week's conference in Los Angeles, the president-elect from the industrial Midwest may prove less of an environmental radical than Californians hope. If the recession proves deep and long, though, the state will not need quite so much help meeting its target.

Payday lending

Casting out the money-lenders

Nov 20th 2008 | AUSTIN
From The Economist print edition

Cities and states are cracking down on payday lending

IN 2007 the small city of Mesquite, a suburb of Dallas, was trying to overhaul its ageing infrastructure and faded industrial zones. City officials launched a renewal programme, but found their efforts marred by payday lenders. These are shops that offer small, short-term loans (in advance of payday) on unfavourable terms, and their neon signs hardly suggest a thriving and vital place. “They project an opposite kind of image,” says one city official. So Mesquite passed a strict zoning ordinance that will make it difficult for any new payday lenders to set up shop. The city cannot bar the practice, but it can try to elbow it out.

The payday lending industry has taken several hits this month. On November 6th the Arkansas Supreme Court ruled that large fees for small loans violate the state constitution. In Arizona, voters rejected an industry-sponsored “reform” initiative that would have done away with a sunset provision on payday lending in the current law. In Ohio, voters decided not to repeal a law capping annual interest rates. This could mean the end of payday lending in those three states.

Bloomberg News

Beware, beware

More than a dozen others have already cracked down on the practice by capping interest rates, and local action, as in Mesquite, is becoming more common. The Southwest Centre for Economic Integrity has totted up dozens of local ordinances against payday lenders, in cities and towns from California to Kansas. And the national government sometimes weighs in: last year annual interest rates for loans to military families were capped at 36%. Barack Obama’s economic plans call for this to be extended to everyone.

Consumer advocates welcome the trend. They say payday lenders are predatory, financially knee-capping their customers without providing a crutch. A $15 fee for a $100 two-week loan works out at a 390% annual rate. And fees balloon if the borrower needs an extension, as many do. According to the Centre for Responsible Lending, 90% of payday loans go to “trapped borrowers” seeking five or more loans each year.

Industry supporters consider this attitude elitist, as if only rich people can handle living on credit. They say that if a hard-working American finds himself in a bind, taking an occasional payday loan may be better than bouncing a cheque or having the power cut off. And a transparent rip-off may be less obnoxious than being penalised right and left with hidden fees. But the voters seem to be saying that “not all bad” is bad enough.

Gun sales

Booming

Nov 20th 2008 | TAMPA, FLORIDA
From The Economist print edition

A surge in the run-up to the election

MANY sorts of Americans are happy that Barack Obama has been elected to be their 44th president: blacks, rich whites, Hispanics, women, the young. But no one seems happier, at the moment, than the owners of gun shops.

AP

Just in case

According to the National Instant Criminal Background Checks System (the FBI body that oversees applications for people who want to buy guns), the number of checks run between January and October this year rose by 9%, compared with the same period in 2007. Even more dramatically, the body reports that 15.4% more checks took place in October 2008 than in October 2007.

Gun enthusiasts reckon there is a simple reason: Barack Obama. “It’s clear from President-elect Obama’s voting record and statements that gun-control policies, including gun bans, will be back on the table. Law-abiding Americans are recognising this and acting accordingly,” says Ted Novin, director of public relations for the National Shooting Sports Foundation.

Mr Novin is perplexed by, and therefore wary of, the seemingly contradictory messages on guns that Mr Obama has put out during his time as an Illinois senator and as a presidential candidate. Back in the old days, Mr Obama used to sound supportive of the District of Columbia’s ban on handguns. But when this was overturned by the Supreme Court in June, Mr Obama welcomed the decision. Mr Novin says he does not understand what the president-elect means when he calls for “commonsense safety measures” for guns. To add to his perplexity, he notes that Mr Obama’s website stated that he “believes that the Second Amendment creates an individual right, and he respects the constitutional rights of Americans to bear arms.” What to believe?

The National Rifle Association (NRA) is equally unimpressed. “The President-elect’s campaign rhetoric did not match his voting record,” states Andrew Arulanandam, an NRA spokesman. The NRA thinks that next year the Democratic president and the incoming, more strongly Democratic, Congress will start by going for a ban on semi-automatic assault rifles, such as the Russian-made AK-47, or AR-15’s, which are a favourite with police departments. The association has sponsored a website, www.gunbanobama.com, whose title is self-explanatory.

Meanwhile, gun sales are going like gangbusters. Chuck Wiggins, manager of the Patriot Arms gun shop in a suburb of Tampa, Florida, says that ever since Mr Obama became a contender "the sales of assault rifles here have at least tripled; I can't keep enough of them stocked. And ammunition is selling out so fast that I'm calling manufacturers to try to find some more to buy."

Arkansas's lottery

Taking a punt

Nov 20th 2008 | LITTLE ROCK
From The Economist print edition

One of America's poorest states takes the plunge

ARKANSANS love gambling, but they have never been allowed to indulge their passion to the full. The state has greyhound- and horse-racing; but it only allowed a few slot machines to be installed at the racetracks two years ago. Bingo became legal only last year, and only charitable groups are allowed to operate a parlour. As for a state lottery, such things were banned under the state constitution of 1874; until this November, when Arkansans voted nearly 63% in favour of one.

The lottery amendment didn't pass without a fight. Conservative groups such as the Family Council opposed the measure, as did the congregations of many churches. The legislature, too, balked at it, forcing lieutenant-governor Bill Halter, the lottery's main architect, to gather petition signatures to get the measure on the ballot on election day.

Opinions may have been swayed by the thought that the lottery will help to fund education in the state. This happens already in five of the six states that surround Arkansas. In Georgia, too, more than 1m people have attended college on HOPE scholarships totalling over $3.5 billion since 1993, helped by the lottery.

Arkansas currently ranks 50th in the percentage of adults with college degrees and 49th (ahead of West Virginia) in income per person. Experts say that the lottery may raise as much as $100m for scholarships in Arkansas, after running expenses and prizes are deducted. That is not chicken-feed in a poor state.

But Arkansas still has a long way to go before citizens can simply buy a lottery ticket at a convenience store and hope to hit the jackpot. The legislature meets in January to try to work things out, including what sort of games—such as scratch-cards—could be allowed. Church groups vow to go on protesting. If they make no impression, another constitutional amendment may appear on the 2010 ballot to restrict lotteries again.

The neighbours are aggrieved as well. Mr Halter points out that of the 6,000 lottery retailers in Missouri, the top six stores have been placed near the Arkansas state line. In Oklahoma, too, six of the top lottery retailers sit along the Arkansas border. Oklahoma officials say its lottery makes about $10m a year from Arkansans. But once the paperwork is done and Arkansans can buy their tickets at home, that looks like a losing gamble.

Lexington

How new a deal?

Nov 20th 2008
From The Economist print edition

Comparisons between Barack Obama and FDR are misguided

Illustration by KAL

IN HIS victory speech on November 4th Barack Obama talked about people putting “their hands on the arc of history” and bending it “once more towards the hope of a better day”. Mr Obama and his fellow Democrats now have that arc in their grasp. But where they are going to bend it is still being debated.

Many liberals would like to turn it towards a “new New Deal”. Washington is currently buzzing with talk of Franklin Delano Roosevelt. Members of Mr Obama’s inner circle are reading up on FDR’s first 100 days. No political conversation is complete without a knowing reference to the squire of Hyde Park. Both *Time* (on the cover) and the *New Yorker* (on an inside page) feature pictures of Mr Obama as FDR, smoking a cigarette, driving an open-top car and looking very much as though he has nothing to fear but fear itself.

Such Roosevelt-mania is hardly surprising. America is in the grip of the biggest housecleaning since the Depression—a housecleaning that has already closed investment banks and shrunk pension portfolios, and is now rippling through the real economy. The political playing-field has also tilted leftward. Mr Obama received a higher proportion of the popular vote than all but one Democratic presidential nominee since FDR (though Republicans have often done better). The Democrats will have bigger majorities in both the House and Senate than the Republicans in their glory days of 1994-2006. As for the Republicans, Eric Cantor, a member of the Republican leadership in the House, laments that they are no longer “relevant” to the average Joe.

Mr Obama and his allies should nevertheless beware of pushing the FDR comparison too far. Many on the left believe that they have a mandate not just for a stimulus package but for a wholesale reinvention of government. They see the dawn of a new era of activism in which the government re-regulates business as well as finance, fixes health care, promotes “green growth”, restores equality of opportunity and generally brings order to the chaotic capitalist system. Ronald Reagan created a period of Republican dominance by bringing “order” in the cultural sphere after the liberal excesses of the 1960s and 1970s, argues Peter Beinart in *Time*; Mr Obama has a chance to create a period of Democratic dominance by doing the same in the economic sphere.

But going down this path is rife with economic risk. The New Deal was introduced into a world of giant organisations—of big businesses and big trade unions that were capable of striking deals with big

government. But today's economy is much more fluid. America's most successful companies are entrepreneurial outfits like Apple and Google, which thrive on flexibility; even giant companies such as General Electric are breaking themselves up into entrepreneurial divisions. More Americans own their own companies (15%) than belong to trade unions (12%).

Many liberals are determined to bail out Detroit's carmakers. But is subsidising weak companies really the best way to start a new era of liberal political dominance? They are infatuated with the idea of a Green New Deal. But do they really think that a Washington brains trust is the best way to nudge people to change their habits? Mr Beinart argues that Americans want their government to "keep their 401Ks from going down" and "their health-care premiums from going up". But can you base a new economic order on such pie-in-the-sky expectations?

Going down this path involves political risks, too. Bill Clinton and eventually George Bush both paid a heavy price for over-interpreting their political mandates. In his first two years Mr Clinton busily tried to introduce universal health care and an ambitious public-works programme amid heady talk of a New Democratic agenda. The result was civil war in the Democratic Party over the economic stimulus and, the next year, a Republican takeover of Congress. Mr Bush was obsessed with pandering to his conservative base. It worked for a while, but he is currently almost as unpopular as Richard Nixon was when he left office.

No drama please

It is certainly true that the financial crisis is redrawing the line between government and markets. But the election result was more a verdict on the incompetence of the Bush administration than a plea for an era of activist government. Forty-three per cent of voters (and 27% of Obama voters) have told pollsters that they think government is doing too much. Many others think that, even if the government has a role in dealing with a crisis, it should retreat once the crisis has passed.

Some signs suggest that the Democrats on Capitol Hill recognise the risks of overreach. For every excited reference to the New Deal you can also find a sober call for patience. Nancy Pelosi, the speaker of the House, argues that "the country must be governed from the middle." She also emphasises that "many of our options have been diminished because of the downturn in the economy." Harry Reid, the majority leader in the Senate, says that the election was "not a mandate for a party or an ideology" but a "mandate to stop fighting over the things that divide us and start working on the things that we can get done".

Mr Obama is even more cautious. Even before the election, he gave warning that the deficit may force his administration to delay some of its plans. The first appointment to his economic team looks set to be Peter Orszag, a brainy centrist who is particularly concerned about the exploding cost of entitlements. On November 16th Mr Obama told an interviewer to be careful about pushing the FDR comparison too far ("no period is exactly the same"). He argued that government has a role in kick-starting a stalled economy, but he also noted that America is a free-market system that is characterised by innovation and risk-taking. He said that he would be happy to adopt ideas that work, whether they come from FDR or Reagan. It's good to know that not everybody is getting carried away with rhetoric.

The Amazon's indigenous people

The other Brazil

Nov 20th 2008 | NOVO PARAÍSO, AMAZONAS
From The Economist print edition

The mixed blessings of the simple life led by indigenous people deep in the forest

AFP

POLITICIANS all over the world are accustomed to cutting ribbons on new buildings. In the Alto Solimões region of the Brazilian Amazon, they are sometimes expected to wield bigger shears. An extension to Novo Paraíso's schoolhouse is being built and Yudo, recently elected to the post of *vereador*, a kind of town councillor, strides into the forest with a chainsaw to get more timber for the beams. The tree falls exactly where he wants it to, but on the way down it rips a branch from the overhanging canopy. It falls, slicing through the top of Yudo's ear. An inch to the right and it would have cracked open his skull like a nut.

The timing of his misfortune could not be better. For the past ten days, Novo Paraíso, which has a population of about 50 souls, has had a hospital as good as almost any to be found in Brazil (albeit a temporary one), courtesy of a Brazilian charity called Expedicionários da Saúde. It comprises three air-conditioned sterile tents for surgery, a pharmacy, a post-operative ward and a team of experienced anaesthetists, surgeons, nurses and technicians, all of whose services are free. Novo Paraíso sits in an area of the forest that, after a long fight, was reserved for the Ticuna people. Most of the Ticuna live in Brazil, but there are some in Colombia and Peru too. One patient has apparently travelled for eight days from Peru to get an operation.

Such reservations are a recent bright spot in a torrid history of contact between indigenous Brazil and its more recent arrivals. The Ticuna discovered white men several hundred years ago, but they have kept their language—bafflingly dissimilar to their neighbours' tongues—intact. Indeed, only a handful of villagers speak any Portuguese, Brazil's national language. All school classes are in Ticuna. A Ticuna girl's first menstruation is still celebrated with a rite involving all her hair being plucked out, along with a lot of feasting.

To the south-west lies an area thought to have the Amazon's highest concentration of tribes who have never had contact with the outside world. In May a passing plane photographed men with spears, bows and arrows poised to let fly if the intruders came within range. Brazil's government has sensibly decided to stop trying to bring order and progress to such "uncontacted" Indians and now leaves them alone (though it recently announced the introduction of a plane with heat sensors that can detect warm bodies, to keep track of their whereabouts). Policy is not so enlightened everywhere. In neighbouring Paraguay, members of uncontacted tribes are still being driven out of the forest.

The results of the reservation policy in the Alto Solimões area are impressive. Over the past ten years, the population has increased from 27,000 to around 40,000, according to FUNASA, the federal agency responsible for providing health care. This has another benefit. “Keeping people here healthy helps to keep the trees standing,” says Ricardo Affonso Ferreira, an adventurer and orthopaedic surgeon who set up Expedicionários da Saúde: “They are better at preserving the forest than we are.”

Judged by the statistics on sanitation, education and poverty, life should be pretty grim in the Alto Solimões region. In the municipality of São Paulo de Olivença, where Novo Paraíso lies, nine out of ten homes lack running water. The median number of people living in each hut is seven. Each head of household spends an average of only two years in school. Yet life is not as bad as it may sound.

The village’s economy runs on barter, though most households seem self-sufficient. Men go out fishing in the Solimões river, a tributary of the Amazon, in canoes with diamond-shaped paddles or small outboard engines. Women gather beans and other crops planted along the banks, leach the cyanide compounds out of manioc, a root that grows well in the poor soil, and then roast it to make a crunchy flour eaten throughout Brazil. Chickens scratch around under huts that sit on stilts to guard against flooding when the river bursts its banks. Many families receive the *bolsa familia*, a benefit paid on the condition that their children get vaccinated and sent to school.

As well as providing food, communication and the occasional excitement when a Colombian gunboat looking for drug smugglers sails by, the river affords the best way to cool off in the heat—so long as thoughts of little organisms that swim up the urethra can be set aside. In the evening, village children play volleyball or football along the bank. Many of them are approaching the age where they must decide whether to swap this life for something else in one of the riverbank towns. Their trendy hair and clothes suggest they will.

If this all sounds a little too prelapsarian, it is perhaps because Novo Paraíso is so small. On the other side of the river, in Vendaval, a settlement of around 1,500, there have been cases of suicide. On one recent Saturday night a drunken knife fight left one man dead and another with his face and neck badly scored.

For now, though, Novo Paraíso has more immediate worries. Among the patients arriving on the river bank to have their cataracts removed and their hernias fixed at the new hospital is a pregnant woman who is bleeding alarmingly. She is brought into one of the tents for an emergency caesarean section. The baby is swaddled and placed in a plastic container emptied of medical equipment, before the pair are sent off in a fast boat to the nearest incubator, four hours upstream.

Mexico

The scribes' lament

Nov 20th 2008 | MEXICO CITY
From The Economist print edition

A dying profession in the heart of the city

BEFORE you even reach the square, the offers of counterfeit receipts and diplomas come in rapid fire. The modest plaza of Santo Domingo, a few blocks north of Mexico City's grand central square, the Zócalo, is a district of printing shops and stationery stores, dominated by a church which, with its solitary bell tower skewed off to the side, appears to be winking at the activities—both licit and illicit—unfolding below. The church has been there since 1736. For almost as long, scribes have gathered on its plaza to tend to correspondence, public and private. It was they who gave rise to the printing shops. They, too, who gave the neighbourhood its character. But they are now a dying breed, superseded by ever-spreading modern gadgetry.

Although Mexico's literacy rate has improved markedly over the years, nearly one in ten Mexicans are still unable to read or write. So some 20 or so scribes remain, having traded quills for pens and pens for typewriters. At 27, Toño Rojas is among the youngest. He charges 20-30 pesos (around $2) a page. Most of his clientele, he says, are illiterate; nowadays only a few use his services simply for convenience. He mostly writes receipts for tradesmen—plumbers, construction workers and the like—or helps fill out tax forms. As a sideline, he types letters of complaint to government agencies, the city's mayor or even to the president himself. In a full day's work, he can still expect to see eight to ten customers. But business is down, he says, even over the four years he has been there.

The square's scribes were once famous as stand-in Romeos, writing love letters. Sometimes, the same scribe would find himself handling both sides of the correspondence for a courting pair. But requests for such letters are now rare, Mr Rojas says. The nearest he has ever got to writing one was when he was asked to write a *calavera*, or satirical poem, for the annual Day of the Dead (November 2nd).

A few stalls down, another scribe has been at work at the same post for the past 48 years. His battered Olympia typewriter is, by comparison, relatively new; he has had it for just ten years. He confirms the virtual disappearance of the love letter. It's not that everyone has suddenly learnt to read, he says; they have simply stopped writing endearments. These days, everyone uses mobiles.

That is not the only technological advance that has disrupted the scribes' livelihoods. Some of their more lucrative work used to be copying out a few pages at a time from textbooks for students who could not afford to buy the original. Now, they use copy machines, the scribe laments. Asked for his name, Salvador Sámano tears a receipt for bonded paper in half and types quickly out on the back: "S a v l a d o r S á m a n o P."

If Mr Sámano's misspelling of his own name provides grounds for the profession's doom, Mr Rojas's decision to take up the trade seems to indicate that, even decades hence, the plaza of Santo Domingo will remain home to a few battling scribes scraping out a living in the service of an illiterate underclass.

Colombia

Tumbling pyramids

Nov 20th 2008 | BOGOTÁ
From The Economist print edition

A state of emergency is declared after swindled investors take to the streets

ALL it took was the first hint of a rumour that the government was about to shut down an illegal pyramid investment scheme for the owners of the scam to flee the country, prompting tens of thousands of furious investors to go on the rampage in 13 cities across Colombia. On November 12th and 13th, shop fronts were torched, offices looted and government buildings attacked in violent protests that left two dead, prompting the government to declare a state of emergency.

The rioting began after news spread that the owners of Proyecciones DRFE (the Spanish initials for “Fast Easy Money In Cash”), an investment scheme in which hundreds of thousands of Colombians had sunk their savings, had bolted. Tempted by astronomical rates of return, many investors, ranging from poor farmers to wealthy senators, had sold their homes or taken out loans in the hope of watching their money double in just a few months. Some even quit their jobs. Now most had been left virtually penniless.

DRFE is one of more than 200 Colombian firms suspected of taking deposits illegally from investors, offering interest rates of up to 300% over just six months. Some act as classic pyramid scams under which the initial investors reap rich profits from other investors they manage to attract. The scheme continues to pay out until new investors stop coming in or the owners decide to skip town. Others are more sophisticated affairs that pose as normal companies selling merchandise, but pay their clients in “points” redeemable in cash after six months.

In Bogotá, the capital, officials spent the first few days after the riots blaming one another for failing to prevent the crisis, and Colombia’s chief financial regulator resigned. When the government did at last react, on November 17th, it was to declare a state of “social emergency”. This allows President Álvaro Uribe to rule by decree. Among the first measures announced is a jump in the maximum prison term for the bosses of such scams from six to 20 years. At the same time mayors and governors have been given new powers to shut down offending firms without wading through the normal mounds of red tape.

Hours after the announcement, police closed 59 offices of DMG Grupo Holding, which evolved from a simple pyramid into a sophisticated investment scheme with a claimed 200,000 clients. Although this company had not stopped paying its clients, the government and prosecutors had long suspected it of having ties with money-laundering operations linked to the drug trade. DMG denies any such associations. It also denies taking illegal deposits, claiming to sell pre-paid cards to clients, then paying them cash-based “points” after six months.

The government says it hopes to return cash to investors from money and assets seized from the companies. But as Mr Uribe warned punters in a televised address this week, many still stand to lose their money despite all the government’s efforts. So far, 92.4 billion pesos ($42m) has been seized from DRFE offices, though officials believe the company may have taken as much as $200m in deposits. DMG’s assets have yet to be appraised, but company representatives have already said they do not have the cash to pay back all their investors.

Not all Colombians are opposed to the investment firms. While some have looted the companies who scammed them, others have organised marches in support of what they call “the banks of the poor”. Commercial banks tend to offer low interest rates and charge exorbitant fees.

Although Mr Uribe has sought to defend the country’s financial system, he has urged banks to make services more easily available to poorer Colombians. After the collapse of the pyramid schemes many Colombians, who are anyway wary of banks, may resort to keeping their money under the mattress again, thereby exacerbating the crisis.

Saving Canada's polar bears

Unbearable pursuits

Nov 20th 2008
From The Economist print edition

A clash between environmentalists and Inuit rights

Rex Features

“WE DON'T have no vegetarians here,” says James Qillaq, a long-time resident of Kanngiqtugaapik in Canada’s Nunavut territory. North of the 70th parallel, where winter temperatures regularly drop below -30°C, “nothing can grow in the ground, so the only thing we eat is animals.” Inuit like Mr Qillaq have been hunting here for generations, and though sledge dogs and spears have been replaced by snowmobiles and rifles, the prime target remains unchanged: polar bears.

As if global warming weren’t problem enough, a row over how to determine hunting quotas has recently begun to heat up. Polar bears are divided into 19 distinct populations throughout the high Arctic, all in varying stages of distress. One of the most fragile is in Baffin Bay, where there are now only about 1,500 animals, down nearly a third from a count a decade ago.

This bunch has the added misfortune of straddling the border between Nunavut and Greenland: native people on both shores are eager to kill as many bears as they can. In the light of the declining population, Canadian scientists recommended that this winter’s hunt be limited to 64. But the Nunavut Wildlife Management Board—an Inuit-controlled body that makes the final recommendation—decided to set the number at 105. Then Greenland added another 68, for its own hunters. Together, this is nearly three times the sustainable harvest. Even without the rampant poaching that takes place in Greenland, 12% of the Baffin bears are set to be turned into blankets, mukluks and stews.

In Nunavut, mistrust of outside experts is huge. Tribal elders insist that they are seeing far more bears than ever before. Bear experts like Andrew Derocher of the University of Alberta acknowledge this, but explain that the bears are being pushed ashore as the sea ice disappears. With fewer opportunities to hunt seals, they venture closer to towns in search of garbage or unattended dog food—if not the dogs themselves. Treaties between Nunavut and the federal government make clear that science should not influence decision-making more than “traditional knowledge”, known as Inuit *Qaujimaningit*, or IQ. Scientists offer statistical projections and computer models; native hunters prefer IQ, which tells them that polar bears are everywhere. For its part, Greenland has been almost completely silent, refusing to release the most basic information about their hunters or their wildlife.

Both Nunavut and Greenland are relatively new to the business of self-governance. Denmark granted a measure of home rule to Greenland in 1979; Nunavut was established in 1999 along with a sweepingly powerful Land Claims agreement designed to atone for Canada’s previous offences against the aboriginal peoples. Separated in places by less than 40km (25 miles), Nunavut and Greenland have far more in common with each other than with Ottawa or Copenhagen, their respective capitals. Neither wants to be told how to handle resources on its home ice.

The fact that the Baffin polar bear population crosses a national boundary would suggest a need for the involvement of Canada’s federal government. But its environment minister is loth to intrude on Inuit privileges. Critics allege that he has spent C$900,000 ($729,000) to facilitate meetings of the so-called “co-management boards” that determine hunting quotas. The Canadian government funds only $150,000 worth of research on polar bears nationwide in a whole year.

Although Mr Derocher supports a limited amount of hunting, he notes that for a population in decline the

sustainable harvest number is, by definition, zero. Polar bears are a long-lived species with a low reproductive rate, so recovery from overharvesting could take many decades. With the additional problem of climate change, any significant uptick might be impossible.

Mr Qillaq, who chairs the Kanngiqtugaapik Hunters and Trappers Organisation, laughs at the notion that hunting will harm the polar bear population. “Numbers are just numbers,” he says. “We live here, so we know what’s really going on in the north. We can hunt anytime we want, anywhere we want, no matter what anybody says.”

Economist.com WORLD ASIA

Asian economies

Sittin' on the dock of a bay

Nov 20th 2008 | HONG KONG
From The Economist print edition

Trade slows and gloom mounts. But Asia's economic downturn will be milder than the one it endured a decade ago

eyevine

EARLIER this year most businessmen and investors hoped that Asia's emerging economies could withstand the economic and financial turmoil in the developed world. Now, however, stockmarkets seem to be betting on a rerun of Asia's deep recession after its own crisis in 1997-98. Share prices in the region have plunged by an average of two-thirds (in dollar terms) from their peak in 2007—almost as much as they fell during the Asian financial crisis. Is Asia really heading for such a painful economic slump?

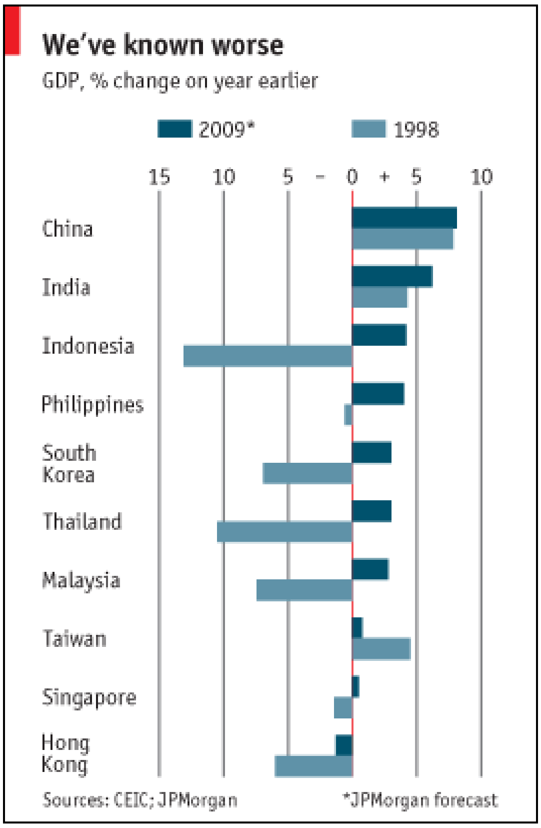
The latest figures are certainly worrying. Japan is now in recession. China's economy is slowing much more sharply than expected, with the 12-month growth in its industrial production falling from 18% to 8% over the past year. Indian spending is being squeezed by the credit crunch: commercial-vehicle sales fell by 36% in the year to October. Hong Kong and Singapore are already in recession, with GDP having fallen for two consecutive quarters.

Asia is more reliant on exports than is any other region, so it is bound to be hurt by the rich world's worst recession since the 1930s. China's exports have so far held up surprisingly well, growing by 19% in the 12 months to October. South Korea's have increased by 10%. But in Singapore and Taiwan exports have plunged this year. An Indian official has said that exports in October were 15% lower than a year ago.

Asia's foreign sales are being choked by the global credit squeeze as well as weak demand. Cargoes pile up on the dockside and ships wait empty because exporters cannot get letters of credit to secure payment on delivery. Robert Subbaraman, an economist at Nomura in Hong Kong, reckons that over the next year exports from Asia (excluding Japan) could fall by 20%—roughly the same drop as during the 2001 dotcom crash. Weaker exports will dent investment and consumer spending. Yet Mr Subbaraman reckons emerging Asia as a whole will see GDP growth of 5.6% in 2009. That would be well down on the 9% seen in 2007 and perhaps 7% this year, but it would be slightly faster than during the 2001 downturn and much stronger than the 2% average growth in 1998.

In 1998 Hong Kong, Indonesia, Malaysia, South Korea and Thailand all suffered slumps in GDP of more than 6%. Even the gloomiest forecasters do not expect anything so dire this time. A

few, such as JPMorgan, expect GDP to decline next year in Hong Kong, and Hong Kong's chief executive, Donald Tsang, expects growth to be flat or negative in all the region's "mature" economies, including his own and Singapore. But everywhere else should see positive growth (see chart), and generally remain stronger than during the 2001 dotcom crash. Only Taiwan is likely to have a worse year in 2009 than in 1998.



Mr Subbaraman also believes that Asia will recover sooner than other parts of the world, because most governments have ample room to ease policy and their economies are in better shape than those elsewhere. China, India, South Korea, Singapore, Taiwan and Hong Kong have all cut interest rates in the past two months. Falling energy and food prices will push inflation lower, and so allow further rate cuts.

All the main Asian emerging economies, apart from India's, have public debt-to-GDP ratios well below the average in rich economies, giving them room to boost public spending or cut taxes in order to spur domestic demand. China, Malaysia, South Korea, Taiwan and Thailand have already announced fiscal stimuli. Singapore is expected to fire its hefty fiscal ammunition soon. Hong Kong's Mr Tsang is "up to his eyeballs in contingency plans".

In contrast to the late 1990s, most Asian economies are in relatively good shape, if not Pakistan's (see article). Elsewhere, foreign-exchange reserves exceed short-term foreign debts. Almost all the region's countries have current-account surpluses, though India and South Korea have deficits, which explains why they have seen large currency depreciations this year.

Most Asian households and companies are also modest borrowers. The black sheep is South Korea, where households and firms are even more indebted than in America. But total domestic debt (private and public) fell to 143% of GDP in emerging Asia in 2007, compared with 251% of GDP in America. As its exports stumble, Asia faces a nasty cyclical downturn. But it is spared the deep structural problems, such as excessive debt, which could depress growth elsewhere for several years.

Tortoise or tiger?

All the Asian economies will slow sharply next year, but some more than others. As the most open economies that are also big financial centres, Singapore and Hong Kong have been hit hardest. India is the least dependent on exports, at only 22% of its GDP, compared with a regional average of over half. So, in theory, it should be the least affected by the global slump. But India has two disadvantages. First, it is more exposed to the global credit crunch as a result of its previous reliance on large capital inflows. The sudden reversal of capital has sharply increased the cost of borrowing, forcing firms to cut investment—an important driver of growth in recent years. The Reserve Bank of India has cut interest rates and pumped liquidity into the banking system, but borrowing rates remain high.

A second problem is that, unlike China, the Indian government has little room for a fiscal stimulus. Its budget deficit is running at an estimated 8% of GDP (including off-budget items). Whereas China is boosting infrastructure spending to prop up demand, India's plans to build roads and power plants with the help of private money may be delayed by the credit squeeze. The finance minister, Palaniappan Chidambaram, declared this week that growth will "bounce back" to 9% next year. Many economists reckon it is likely to be closer to 6%, while China's slows to 8%.

Among the South-East Asian economies, Indonesia seems to be holding up best, with GDP up by 6.1% in the year to the third quarter. As a big exporter of commodities it will be squeezed by falling prices. But Malaysia, which is much more dependent on foreign demand, will be hit harder. Its exports are equivalent to over 100% of its GDP—proportionally, more than three times bigger than Indonesia's. Thailand, where Asia's financial crisis began in 1997, has learnt its lesson the hard way. Its foreign-exchange reserves are now four times as large as its short-term foreign debt, and it has a current-account surplus. It is not about to suffer another crisis. But as exports fall, business and consumer confidence remain depressed by political uncertainty. Thailand will remain one of Asia's slowcoaches.

On the surface, the massive debts of South Korea's households and firms might suggest serious trouble ahead. However, the government has been quick to bail out its banking system, and most economists reckon that a large fiscal boost and the cheaper won (down by 29% this year) will help to cushion the economy, resulting in modest growth, of around 3% next year.

In contrast, Taiwan is already in recession. Its GDP fell by 1% in the year to the third quarter, dragged down both by a collapse in exports and by weak domestic demand. Some economists forecast growth of only 1% next year. To lift consumer demand, the government this week said that it would give everybody NT$3,600 ($108) in shopping vouchers to spend in shops and restaurants.

Such measures are a far cry from 1997, when rather than urging households to spend, governments in Asia begged them to hand over their gold jewellery to be melted down to bolster official reserves. Times have changed. Asia is certainly not immune to the rich world's recession, nor will its economies quickly regain their previous rapid growth trajectory. But the current gloom and doom among investors in the region might yet prove overdone.

Economist.com WORLD ASIA

Tibetans in exile

Splitting splittists

Nov 20th 2008 | DHARAMSALA
From The Economist print edition

A gathering of Tibetans in exile is a noble sign of failure

AP

The one in the picture knows best

AS AN exercise in Athenian-style democracy, the conclave that took place this week in Dharamsala, the Indian-Himalayan refuge of the Tibetan government-in-exile, was impressive. From Buddhist monasteries and scattered Tibetan communities in India, Europe and America, nearly 600 exiles gathered to discuss the future of Tibetan nationalism. Even more remarkable, after a slew of depressing news for the Tibetan cause, was the hopefulness many expressed. “We have to do something to change the future,” said Thinlay Tharehin, a delegate from Moscow, beer in hand, in a Dharamsala watering-hole.

The exiles are not spoilt for options. The conclave was called by the Dalai Lama in response to the latest failure of his efforts to reach a compromise, or “Middle Way”, on the status of Tibet with its Chinese overlords. Spurred by violent springtime protests in Tibet and other ethnic Tibetan parts of China, China’s government had agreed to revive a stop-start process of confidence-building talks with the Dalai Lama’s envoys. No one placed much hope in the process: China was patently concerned that protesting Tibetans should not take the gloss off the Beijing Olympics in August.

Sure enough, the talks, the latest round of which ended on November 5th, seem only to have hardened China’s position. The Communist Party’s representatives had asked the Tibetans to present a list of their demands. These are based upon the notion of an autonomous Tibet within China, that the Dalai Lama has advocated since 1988. Predictably, the Tibetans’ proposals, which seemed consistent with China’s constitution, and more conciliatory than previously, did not find favour. China’s lead representative denounced them as amounting to “disguised independence”. The security regime in Tibet has since been tightened, according to the few Western reporters recently allowed there. Ahead of the gathering in Dharamsala, China’s foreign-ministry spokesman reminded India not to harbour activities “aimed at splitting Chinese territory”.

This has encouraged some exiled Tibetans—of whom there may be 150,000, including 100,000 in India—to aim for just that. Most exiled Tibetans, perhaps most Tibetans, approve the Dalai Lama’s leadership. But a growing number want a tougher line. This year’s protests in Tibet, the biggest against Chinese rule since 1989, may have swollen their ranks. So may the Dalai Lama’s recent admission that his efforts at conciliation have failed. This week’s debate was dominated by whether, in light of that failure, Tibetans should issue a formal demand for independence.

That would vindicate China nicely, which is one reason it seemed unlikely. The speaker of the parliament-in-exile said that of 17,000 messages from Tibetans inside Tibet, roughly 8,000 endorsed the Dalai Lama’s position, and 5,000 advocated demanding independence. The number of exile delegates expected to endorse the Dalai Lama’s “Middle Way” might be in a similar proportion—given that over half the total attending were members of the government-in-exile, which is loyal to him. The Tibetan Youth Congress, an independence-seeking organisation which has some 30,000 members, was directly represented by only two delegates.

Of course, the Dalai Lama, who has been trying to diminish his political role and was not present during this week’s discussions, might also change his mind. His peaceable methods have gained the world’s respect; nothing more. And the world’s respect for Tibetan nationalist aspirations is dwindling: as Britain demonstrated last month, when it said its long failure to recognise full Chinese sovereignty over Tibet was “anachronistic”.

Taiwan's opposition

Hungry for justice

Nov 20th 2008 | TAIPEI
From The Economist print edition

A dilemma for Taiwan's opposition

EPA

His supporters won't take this lying down

CHEN SHUI-BIAN, Taiwan's president until May, has long been fond of provocative and flamboyant gestures. His latest is dangerous. The former president, locked up on November 12th on suspicion of serious crimes, at once started a hunger-strike. He languished for five days in a cell isolated from other inmates, until his health failed. Dehydrated and with his blood-sugar levels and blood pressure down to alarming levels, the 57-year-old former president was on November 16th taken to hospital, and given intravenous glucose and saline drips. His health stabilised enough for him to be taken back to prison on November 19th, by when Taiwan's high court was mulling over his appeal. His lawyer said he would continue his fast.

He is accused of embezzling state assets, accepting bribes, forgery and money-laundering. He insists he is innocent and that his arrest, without a formal indictment, is political persecution. Mr Chen rose to power on a platform of promoting formal independence from China. He accuses the ruling Nationalist party, the Kuomintang or KMT, which took power in May on a platform of warmer ties with China, of jailing him to appease China.

This week there were small protests in his support outside the hospital. Andrew Yang, of the Chinese Council of Advanced Policy Studies, a think-tank, says the low turnout suggests the public is not that sympathetic to Mr Chen. There is no clear evidence against him, but the final years of his presidency were marred by a string of corruption charges involving his family and aides, which ruined the reputation he once held as one of Asia's cleanest politicians.

One accusation he faces is of embezzling around $450,000 of government funds. He was first accused of this around two years ago by prosecutors he had chosen himself. An international financial-intelligence agency, the Egmont Group, has also voiced suspicions to the Taiwanese authorities about money-laundering, after a sum of money, reportedly $21m, was wired to a Geneva bank account belonging to his daughter-in-law. Such scandals helped lose the Democratic Progressive Party (DPP), which Mr Chen quit in August, this year's presidential elections.

Several other DPP politicians have in recent months been jailed without formal charges. Prosecutors have argued that they need to be detained so that they do not collude with witnesses. There have been far fewer arrests of KMT politicians and the DPP accuses the judiciary of bias. The current president, Ma Ying-jeou of the KMT, is seen as clean. He has named technocrats to his cabinet for their pristine image. But the KMT itself, which ruled Taiwan from 1949 to 1999, under martial law until 1987, was once notorious for corruption.

Political commentators are divided on the DPP arrests: is it progress that prosecutors dare send a former president to jail? Or does it suggest that the judiciary is politicised, ready to violate the presumption of innocence and tear up the writ of *habeas corpus*? Whatever the truth, it has put the DPP and its chairwoman, Tsai Ing-wen, in a tricky situation. The party feels bound to protest about judicial bias. But it also needs to distance itself from Mr Chen and the corruption scandals.

A further complication is that one of the other senior DPP figures detained without charge is Su Chih-fen. She was also on hunger-strike until her indictment on November 15th for allegedly taking NT$21m ($621,000) in bribes. But she is also a vote-winner, and despite the charges against her, the party is seeking her re-election in hotly-contested town and county elections next year. Ms Tsai has a tricky course ahead if she is to steer Taiwan's largest opposition party out of the doldrums.

Economist.com WORLD ASIA

Pakistan's finances

Not so much a bail-out

Nov 20th 2008 | DELHI
From The Economist print edition

Consider it as war reparations

THE manager of one of the classier hotels in Pakistan's beautiful Swat Valley sounds wistful on the phone. His hotel has been closed for months, he says, but he looks forward to extending a welcome in happier times. Over 4,000 tourists visited Swat in 2007, drawn by its Alpine scenery and Buddhist archaeology. But the trade has dried up this year. Visitors are deterred by the Taliban encamped in the region and the mortar fire meant to oust them.

The damage to Pakistan's tourist industry, which brought in $276m in 2007, is one example of the price the country is paying for the war on terror. On November 14th the finance ministry announced its estimate of the full bill: $8.5 billion for this fiscal year, which ends in June 2009, and a staggering $34.5 billion since 2001.

This includes the direct cost of mobilising the army, which is now waging fierce battles against militants in Pakistan's border regions. It also covers a long tally of indirect burdens, from the cost of accommodating displaced people to the higher insurance premiums charged on sea-freight. Such calculations are notoriously hit-and-miss. But the decision to publicise them now is a reliable index of the government's mounting frustration.

Pakistan is running out of cash. On November 15th, the IMF said it would ask its board to lend Pakistan $7.6 billion over 23 months. Pakistan hopes friendly governments will add their financial support. So far it has won warm words but no hard cash, other than, the government says, the promise of a $500m loan from China.

The government feels it is asking not for charity but for recompense. Even trips to Dubai, where it met the IMF, are an additional cost it has to bear because terrorists blew up the Marriott Hotel in Islamabad, deterring foreign officials from visiting. The money it is requesting is not a bail-out, says Ashfaque Khan of Pakistan's finance ministry. No sir. We are paying for our war, which is also your war.

That war's ledger has two sides, of course. Pakistan received over $10 billion in foreign aid from 2001 to 2006, according to the OECD, a quarter of it from America and Britain. America has also provided $8.9 billion in military help in the past seven years. It has paid for the food, clothing and housing for some 100,000 Pakistani troops in regions like Swat. It also reimburses Pakistan for the use of its seaports and airstrips. (Mr Khan complains that reimbursement arrives only after detailed scrutiny and a seven-to-eight month delay.)

In July Joseph Biden, America's next vice-president, proposed a tripling of non-military aid to Pakistan to $7.5 billion over five years. He wants to go beyond a transactional relationship, whereby America provides aid in exchange for services. That sounds nice. But the Pakistanis feel that some outstanding transactions have yet to be settled in full.

Economist.com WORLD ASIA

The war in Sri Lanka's north

In the Tigers' lair

Nov 20th 2008 | COLOMBO
From The Economist print edition

The martial mood intensifies

INDEPENDENCE DAY is not celebrated until February. But flags are flying from buildings and lamp posts in Colombo in a show of public support for the government's military campaign against the rebel Liberation Tigers of Tamil Eelam. On November 15th, as his government faced a crucial parliamentary vote on the budget, President Mahinda Rajapaksa announced on national television that troops had seized the Tiger-held town of Pooneryn for the first time in 15 years. His generals are calling this a "turning-point" in the 25-year war. It places the entire western coast under military control and opens up a land route to Jaffna in the north, for the transport of troops and supplies that for months have been sent by sea or air.

The well-timed broadcast helped Mr Rajapaksa sideline critics of a budget that raised taxes on dozens of imports—from fruit and vegetables to milk powder—and lifted defence spending to an all-time high of $1.6 billion. It also helped rally the public around the war despite an annual inflation rate of 20% and plummeting investor confidence. According to Harsha de Silva, an independent economist, the defence budget will be met almost entirely through borrowing, and after next year's debt repayments, government revenue will not cover even defence expenditure, which he estimates at about $2 billion.

The populist Mr Rajapaksa, now exactly halfway through his six-year term, continues to dazzle the Sinhala majority with his commitment to beating the Tigers militarily. A study by the Centre for Policy Alternatives, a think-tank, found 93% of Sinhalese and 57% of Muslims satisfied with his conduct of the war. Significantly, however, 87% of the Tamil minority were unhappy with the military campaign.

No wonder. The Tigers have been fighting for an independent Tamil homeland, and Tamils have been hardest hit by the war. The International Committee of the Red Cross (ICRC) said this month that tens of thousands of Tamil civilians from the Wanni, the Tigers' stronghold, remain displaced. Hicham Mandoudi, who heads the ICRC's Wanni operations, says many are exhausted after fleeing several times since hostilities escalated in July, each time abandoning more of their belongings.

An estimated 200,000 civilians remain inside Tiger-controlled areas in the north and rely on limited convoys of food, medicine and other essential items being sent by the government. The ICRC is the only international humanitarian agency left in the Wanni, after the UN and others pulled out in September, when the government said it could not guarantee their safety. The ICRC also says that recent months have seen an increase in the number of people arrested in connection with the conflict. It does not say so,

but most detainees are Tamils suspected of links with the Tigers.

The capture of Pooneryn was followed by that of a strategic road junction at Mankulam and then, after a bloody battle, of part of the Tigers' northernmost defence line in the Jaffna peninsula, at Muhamalai. The victories have wrapped much of the south in a shroud of euphoria. In his televised speech, Mr Rajapaksa called on Velupillai Prabhakaran, the Tigers' leader, to "lay down your arms and come to the negotiation table". Other ministers have been echoing the call for a ceasefire.

But the Tigers show no sign of complying, despite a claim early this month by their political chief, B. Nadesan, to TamilNet, a pro-Tiger website, that the Tigers were ready for a ceasefire with "no hesitation". This was anyway promptly rejected by the government. Maithripala Sirisena, the agriculture minister, told Parliament that the government would talk to the Tigers only if they disarmed. Other government ministers called it a "trap" and a ploy to regroup and launch fresh offensives.

Despite vast military gains, Kilinochchi, the Tigers' administrative headquarters, remains a difficult target. Soldiers have been skirting its fringes for weeks, held back by strong resistance and, at one time, heavy monsoon rains. The army's spokesman, Brigadier Udaya Nanayakkara, admits it has been taking casualties, but insists it is "on target" to take the town.

Besides funnelling money into the army, the government is on a massive recruitment drive, even using mobile-phone networks to urge young people to enlist. Economists such as Mr de Silva worry that the government has "got the war euphoria mixed up with economic management." Whipping up patriotic fervour in expectation of military victory may indeed distract attention from the worsening economic outlook. But that strategy needs victory to come soon.

Economist.com WORLD ASIA

South Korea

Happy travels

Nov 20th 2008 | SEOUL
From The Economist print edition

A nasty downturn, but politics as usual

AP

Mr and Mrs Lee go to Washington

FOREIGN travel is, for many heads of state, the bane of their lives. South Korea's president, Lee Myung-bak, however, might be forgiven for rather relishing his jaunts this week to Brazil and Peru. The further away the better. Since taking office in February his right-wing administration has been engulfed in controversy—over imports of American beef, privatisation and the easing of building restrictions around Seoul. So the meltdown in global financial markets and the plummeting value of the Korean won (the second-worst performing serious currency this year after the Icelandic krona) could hardly have come at a worse time.

Fears that South Korea's financial system might implode because the country's banks would be unable to meet their foreign-currency debts brought back memories of a humiliating IMF bail-out 11 years ago. This time Mr Lee and his finance minister, Kang Man-soo, have acted belatedly to restore investor confidence. The government has made $146 billion available for South Korean banks to meet their foreign-currency obligations. Currency-swap arrangements have been negotiated with America, Japan and China.

The president has remained faithful to his agenda of deregulation and privatisation. This week he told Korean reporters in Washington that his government believes it can attain growth of 3-4% next year and perhaps boost it by another percentage point through cuts in corporate and personal taxes. Mr Lee says he is ready to help small- and medium-sized businesses in trouble. He has called on the political opposition to stand together with the government for the good of the nation.

The opposition has shown no signs of responding to the call for national solidarity. Indeed, its members seem more concerned with scoring political points than with engaging in a reasoned discussion with the government on the difficulties facing the country. They have boycotted parliamentary committee meetings to protest against a bill to ratify a free-trade agreement with America, and have disrupted the National Assembly by leaving their seats to heckle and scuffle with members of Mr Lee's Grand National Party (GNP). The opposition's reputation among many in South Korea is at an all-time low.

The GNP itself has hardly been effusive in its support for the president. Park Geun-hye, the daughter of Park Chung-hee, an assassinated military dictator, is the president's biggest party rival. She has given him no public backing. Mr Kang has fared even worse, facing repeated calls for his resignation. He has been blamed for fuelling speculation against the won: earlier this year his office complained it was too strong. But Mr Lee has been steadfastly loyal to Mr Kang, his old friend. Some in Seoul nickname the pair "the Lehman Brothers".

Many in the finance business in Seoul criticise Mr Lee's government for misjudging the effect of Wall Street's meltdown. South Korea's senior financial officials admit they are short of contacts among New York's titans of finance. But some bankers even allege that bureaucrats and regulators seem willing to help banks fudge the declining quality of their assets.

Officials in turn blame foreign journalists and financial analysts for exaggerating the difficulties at Korean institutions. JPMorgan this week received a warning from the government's Financial Supervisory Service. It castigated the investment bank after one of its analysts speculated that the problem loans of Hana Bank, which is based in Seoul, may be rising. Han Seung-soo, the prime minister, says South Korea suffers from its inability to communicate effectively. So the government has hired a public-relations firm. At a news conference earlier this month, its representative stood writing in a green notebook embossed

with the name of a former client of the firm: Lehman Brothers.

North Korean tantrums

A balloon debate

Nov 20th 2008 | SEOUL
From The Economist print edition

Trying to close a loophole: the sky

Reuters

Inflatable freedom

LEE CHUN-SIM was a nurse in the North Korean army when she first learnt another life was possible. Ms Lee came across a balloon that carried radios, clothing and pamphlets denouncing the North Korean government. The balloon had been sent across the border by South Korean human-rights groups. After clandestinely listening to South Korean radio broadcasts Ms Lee began to dream of a different life.

But the lifeline that saved Ms Lee is in danger. North Korea is threatening to block the travel of South Korean tourists and businessmen from December 1st unless the South promises to stop its citizens from sending such balloons. Closing the border would hurt the North much more than the South. But avoiding harm to its own people is rarely a consideration for the government. The Kaesong Industrial Complex, 60km (37.5 miles) from Seoul, across the demilitarised zone that divides the two countries, employs 33,688 North Korean workers who are housed, fed and paid $65 a month by 88 South Korean companies.

Kaesong is the most tangible evidence of the “sunshine policy” toward North Korea of President Lee Myung-bak’s two predecessors. Mr Lee himself, however, has denounced the policy, saying it failed to prevent North Korea from acquiring nuclear weapons. Mr Lee wants Kim Jong Il, the North’s dictator, to dismantle his nuclear-weapons programme before the South gives aid to help rebuild North Korea’s shattered economy or encourages investment in the North by South Korean companies.

South Korea’s unification ministry does not share Mr Lee’s tough stance. A spokeswoman says it is exploring legal options to block the sending of the balloons. She suggests that they may be a threat to life and limb, given that they are filled with hydrogen, which is highly combustible.

Hong Seong-phil, of Seoul’s Yonsei University, says the unification ministry is in a bind. “The ministry has to please North Korea yet claim to have a human-rights policy.” Mr Hong thinks North Korea may be bluffing in its threat to shut down Kaesong over the balloons. It is, he says, typical of the North to try to bully the South to offer some favour the North knows it has no right to expect.

Ms Lee, the defector, thinks the balloons should not be stopped. “That is how I got to know about South Korea. I dreamed about going to South Korea.”

Iraq and America

And now Iraq boots the Americans out

Nov 20th 2008 | BAGHDAD
From The Economist print edition

It's official (nearly): Iraq's government wants America's army out by the end of 2011

Reuters

WHEN General David Petraeus, now America's most celebrated military commander, arrived in Iraq in 2003 at the head of an airborne division, he asked a journalist: "Tell me how this ends?" For years nobody had a good answer. But now, thanks to a military pact between America and Iraq, a conclusion is in sight: America's war in Iraq will end in three years' time, with American troops being shown the door and Iraqi politicians competing to claim credit for getting rid of the foreigners.

A "withdrawal agreement" approved by the Iraqi cabinet on November 16th requires American troops to pull out of Iraqi towns and cities by the end of June next year, and to leave Iraq altogether by December 31st 2011. Those deadlines, said Iraq's prime minister, Nuri al-Maliki, in a televised address, would not be extended. The deal was not perfect, but marked "a solid start for Iraq to regain its full sovereignty in three years."

There were no secret articles, he said, and there would be no permanent American bases. Iraq could not be used to attack others (ie, Syria or Iran). There would be, he promised, "no detainees any more, no detention centres any more…no searches or raids of buildings or houses, until there is an Iraqi judicial warrant and it is fully co-ordinated with the Iraqi government."

This is a big moment for America and Iraq, yet the Iraqi government was more regretful than jubilant, calling the deal the best it could achieve after more than a year of negotiations. The Bush administration, now in its last weeks in power, made several concessions. It had long opposed any notion of a fixed timetable for withdrawal, saying any troop pull-out had to be based on security conditions on the ground. The White House said the new deadlines were "aspirational", but the text leaves less wiggle-room; clauses allowing for a review of the deadline, and the possibility that some American troops would stay on to train and support Iraqi forces, have been deleted. Security has improved markedly. But the political context has also shifted against the Bush administration—and the Iraqis have got their timetable.

In America, Ike Skelton, chairman of the House armed services committee, a Democrat, said he was worried by provisions that could result in American troops facing prosecution in Iraqi courts. But the text suggests that this is a remote possibility. Iraq has legal jurisdiction over American troops only in cases of "major and intentional crimes", and even then only when they are outside their bases and off-duty.

The agreement should make life easier for Barack Obama, although there is some dispute as to whether it will have to be ratified by the American Congress. The deal supports the president-elect's principle of a firm timetable for leaving Iraq, but allows him to draw out the process beyond the 16-month withdrawal he promised in his campaign. Admiral Mike Mullen, chairman of the joint chiefs of staff, said America had so much equipment that it would take two or three years to withdraw completely—security conditions permitting.

The agreement was strongly endorsed by the Iraqi cabinet but its passage through the Iraqi parliament, which could vote on it as early as November 24th, is less assured. There were brawls among the lawmakers when it was discussed on November 19th.

In a country with a history of intense opposition to military pacts with an invading power, the deal could polarise opinion. Followers of Muqtada al-Sadr, the radical Shia cleric who heads a powerful (though now dormant) private army, oppose the treaty and demand an immediate withdrawal of foreign troops. Ayatollah Ali al-Sistani, Iraq's most senior Shia cleric, says any agreement had to restore Iraqi sovereignty and win "national consensus". But he did not oppose it, which supporters take as tacit assent.

Some Sunnis want the agreement to be put to a referendum. Another contentious issue is the status of some 17,000 (mostly Sunni) prisoners in American hands. The Iraqi government is due to take responsibility for them, but some Sunni leaders want them all released.

Iran is equivocal. The speaker of its parliament, Ali Larijani, said America was seeking to turn Iraq into a vassal. But the leader of Iran's judiciary, Ayatollah Mahmud Hashemi Shahrudi, said the Iraqi government "has done very well". Some interpret this as Iranian endorsement. But like so much else in Iran, it is hard to pick out a genuine signal from the political noise.

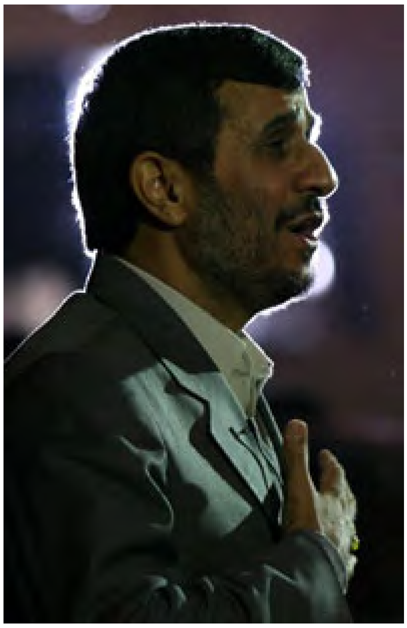
Iran

The party's over

Nov 20th 2008 | CAIRO
From The Economist print edition

Iran's President Ahmadinejad has had a good run. For how much longer?

AP



How long have I got?

MAHMOUD AHMADINEJAD, Iran's president, predicted in March that Barack Obama would never reach America's highest office. "They will find a way of keeping him out of the White House, even if the entire American nation votes for him," he said. In July Mr Ahmadinejad ventured another prediction. The price of oil, he declared, would never fall below $100 a barrel.

Maybe Mr Ahmadinejad's foresight was clouded by wishful thinking. The arch-conservative faction he represents has thrived during the Bush administration. America's belligerence allowed Iran's president to pose as a heroic underdog while record oil prices enabled him to pay for a binge in public spending.

But the failure of both of Mr Ahmadinejad's predictions now presents a double dilemma. Even before the plunge in oil prices, from a midsummer high of $147 a barrel to the current $50 or so, Iranian economists had raised alarms about spendthrift policies that helped push inflation close to 30%. With only perhaps $25 billion still in hand, out of some $200 billion in oil earnings over three years, the government faces stark choices. Its current budget is based on a price of $80 a barrel.

Given the international sanctions clamped on Iran for its nuclear transgressions, it is not clear where the government can turn for financing. Local banks are not a tempting option. A presidential decree forcing them to slash interest rates on small loans to 12%, far below the rate of inflation, has pushed some lenders to the brink of insolvency. Unofficial figures cited by the *Financial Times* suggest that the proportion of non-performing loans has soared under Mr Ahmadinejad, and now accounts for 20% of the banks' exposure.

Iranian economists have taken to bombarding the president with letters excoriating his policies. In the most recent, 60 academics accuse his administration of "excessive idealism, haste in action… and tension-creating interaction with the outside world". Iran has underperformed its neighbours in growth, lost competitiveness and failed to tackle high unemployment, the letter says.

Iran faces no danger of imminent collapse. The Tehran stock exchange has fallen by only about 16% since July, compared with 53% for the MSCI Emerging Markets Index. Sanctions have hit foreign investment in oil and gas production, and driven up the cost of doing business, but have yet to create scarcities for ordinary shoppers. Yet rising prices have shortened tempers. An attempt to impose a 3% value-added tax in September prompted bazaar merchants, long seen as an important conservative constituency, to strike for the first time since the 1979 revolution, forcing a government backdown. The introduction of petrol rationing last year, an attempt to curb consumption that is boosted by massive government subsidies, provoked riots.

On top of this, Mr Ahmadinejad faces mounting political trouble. His hardline interior minister, a close associate, was sacked by Iran's parliament in October after it was revealed that his claimed degree from Oxford University was a fake. Religious conservatives have since attacked another of his loyalists, a deputy responsible for culture and tourism, for violating the sanctity of the Koran by hosting a reception where female entertainers paraded copies of the holy book. Mr Ahmadinejad still appears to have the backing of Iran's all-powerful supreme leader, Ayatollah Ali Khamenei. Yet some analysts say the ayatollah may come to see the president as a liability in the run-up to next summer's presidential elections.

A vital test will be how Mr Ahmadinejad deals with the incoming American administration. To date he has contended that Iran's inflexibility on its nuclear ambitions has come at a bearable cost. Recent meetings at which Russia and China have blocked Western moves to tighten sanctions have been taken as a sign of Iranian success. Mr Obama says he is willing to negotiate with Iran without preconditions, so his victory over John McCain is portrayed in Iran as a defeat for America's hard line.

Yet recent comments from Iranian officialdom suggest that Mr Obama is seen by some as a more formidable opponent. Mr Ahmadinejad took the unprecedented step of sending a congratulatory letter to the American president-elect. But his words were soon undercut by warnings from other officials that America would simply change negotiating tactics from “hard” to “soft”, and exploit Mr Obama's immense popularity to rally more forces against the Islamic republic. Iran's recent test of a new missile, with an advanced semi-solid-fuel design and a declared range of 2,000km (1,250 miles), points to continuing defiance—but maybe also to a degree of growing apprehension.

Congo

Enter Obasanjo

Nov 20th 2008 | NAIROBI
From The Economist print edition

The latest efforts to end the fighting and help the refugees

IT HAS been a week of shuttle diplomacy and sporadic fighting in the east of Congo. General Laurent Nkunda, the Tutsi rebel commander who says he is also a self-styled evangelical Christian pastor, cemented his position in North Kivu province bordering Rwanda and Uganda, while promising to allow in food and medicine for 250,000 civilians displaced in recent fighting. Mr Nkunda was frozen out of recent talks in Nairobi, so the world visited him this week in the portly form of Olusegun Obasanjo, retired Nigerian president and now the United Nations' special envoy.

Once a wily soldier himself, Mr Obasanjo pressed a plan to slow the fighting long enough to allow the deployment of 3,100 extra UN peacekeepers to eastern Congo. They are perhaps the UN's last roll of the dice, intended to shore up the 17,000 blue helmets already spread thinly across a country nearly the size of western Europe. To help Mr Obasanjo, Mr Nkunda promised to abide by a ceasefire and withdraw his rebels from two fronts. He was acting from a position of strength. With the lakeside town of Goma encircled by his men, and with new funds from captured mines and checkpoints, Mr Nkunda can afford to show willing. Even while he ordered a pullback, fighting continued, almost all of it to Mr Nkunda's advantage.

The simplest way forward would appear to be the reintegration of Mr Nkunda and his National Congress for the Defence of the People into Congo's security structures. But the price would almost certainly be too high. Mr Nkunda wants the Congolese president, Joseph Kabila, to grant him a principality in eastern Congo, a sinecure in Kinshasa and the disarming of the Hutu militias he accuses of attacking Tutsis.

That would suit Rwanda's Tutsi president, Paul Kagame. He has positioned Rwanda as the "Switzerland" through which the raw materials hacked from Congo's mines would travel to world markets, and has demanded the demobilisation of a mainly Hutu militia in Congo, the Democratic Forces for the Liberation of Rwanda, some of whose commanders led the 1994 genocide in Rwanda. Mr Nkunda continues to receive Rwandan help. Mr Kagame lets demobbed Rwandan soldiers cross the border and join up with Mr Nkunda.

The UN force says it intends to damp down the conflict by policing the zones the rebel groups have withdrawn from and await reinforcement. But much depends on how well the UN now performs. If there is dithering in New York or failure on the ground, Congo could unravel once again, as it did in the great war of 1998-2003, which sucked in armies from Angola to Sudan and claimed some 5m lives.

Somalia

Ahoy there!

Nov 20th 2008 | NAIROBI
From The Economist print edition

The pirates of Africa's most failed state get ever more ambitious, and dangerous

TO BOARD the *Sirius Star*, one of the world's largest oil tankers, Somali pirates had to haul themselves up ropes tied to grapnel hooks the height of London's Big Ben, with the 330-metre (1,100 feet) long ship pitching all the while in the tropical swell. Then there was the location, way out in the high seas, fully 450 nautical miles off the coast of Kenya. The feat of vertiginous thuggery will be taken everywhere as proof of what is possible; it was the biggest ever catch by any pirate, anywhere in the world.

As if to underline the point, the tanker's capture on November 15th, with $110m of crude oil bound for America, was followed by several other hijackings by Somali pirates, including a Thai tuna boat, a Turkish chemical tanker, an Iranian freighter loaded with wheat and a Greek bulk carrier. Against this, an Indian warship, the INS *Tabar*, reported that it had blown a Somali pirate "mother ship" to smithereens in retaliatory fire on November 18th. Warships from several countries now patrol the Somali coast.

Taken together, the attacks increase the threat against merchant shipping to levels not seen since the second world war. Every tanker using the Gulf and every freighter using the Suez Canal is now a potential pirate target, no matter what course they navigate or how big they are.

As a nascent and profitable industry in a failed and starving state, the Somali pirates will not lack for recruits. A share in a ransom translates into an easier life of meat and honey; not just pirate parties but a beautiful bride, a camel, a home, even a car. Conversely, the ransoms mean higher insurance premiums for the rattled shipping industry, delays for customers as more ships choose the longer passage around the Cape of Good Hope, lower revenues for the Suez Canal, and for the oil markets yet another variable to work into already volatile prices. Piracy will be bad news even for Somalia, accelerating the Talibanisation of the south by armed Islamist groups as more secular-minded gunmen abandon their poorly paid defence of Mogadishu for adventures at sea.

As *The Economist* went to press, the *Sirius Star* had dropped anchor off the Somali pirate port of Haradheere. There it joined a dozen or more other vessels, all anchored at ransom, their crews, about 250 people in all, held at gunpoint. Among them is the MV *Faina*, a Ukrainian freighter captured in

September with a cargo of tanks almost certainly bound for south Sudan (with Kenyan government help). Ransom demands for the *Faina* have dropped from $20m to $8m since it was surrounded by American and Russian warships, but there is still no agreement on its release. The pirates are likely to ask in excess of $30m ransom for the *Sirius Star*.

Zimbabwe

Misery and stalemate

Nov 20th 2008 | JOHANNESBURG
From The Economist print edition

No good faith, no good future

IT HAS been more than two months since President Robert Mugabe and Morgan Tsvangirai of the opposition Movement for Democratic Change (MDC) signed an agreement to share power. The prospect of the long-standing foes governing together briefly raised hopes that the lot of ordinary Zimbabweans might at last become less wretched. But following weeks of bickering, the deal is all but dead. Mr Mugabe says he will name a new cabinet regardless of the continuing lack of agreement. The MDC says that it will not participate unless it gets its fair share of seats.

The main issue is control of the interior ministry, which controls the police. Mediators have proposed sharing the ministry between the MDC and Mr Mugabe's ZANU-PF, but the MDC has rejected that. Having won most votes in March's election the opposition controls a majority in the National Assembly for the first time since independence. Under the power-sharing deal, Mr Tsvangirai's party is supposed to control 13 ministries and a small MDC splinter led by Arthur Mutambara was assigned three. ZANU-PF is allocated 15. Mr Tsvangirai's group insists on getting the interior ministry because Mr Mugabe's party is to keep the army and intelligence services.

In addition, the composition of the new National Security Council remains unresolved, and a constitutional amendment needed to create the new job of prime minister, which is to go to Mr Tsvangirai, has not been approved. Mr Tsvangirai questions Mr Mugabe's good faith. The opposition, for example, was not informed when the text of the power-sharing deal was tampered with between the end of negotiations and the signing ceremony.

South Africa helped the MDC on November 20th by saying that it will withhold aid for Zimbabwe until a new representative government is in place. It is the first punitive measure against Mr Mugabe's regime by a regional power to enforce the power-sharing agreement.

The MDC says it remains committed to the agreement. It has little choice. If it gives in without winning a fair share of power, it will be part of a government firmly under the thumb of Mr Mugabe. If it stands its ground, the deal could unravel completely, condemning Zimbabwe to further collapse. The UN World Food Programme reckons that 5m people face starvation early next year. With the public-health system in tatters, cholera is spreading. And without a political breakthrough, there will be no foreign rescue.

Angela Merkel

Miss World goes missing

Nov 20th 2008 | BERLIN
From The Economist print edition

There are calls, even in Germany, for the chancellor to become more visible

Illustration by David Simonds

ANGELA MERKEL, Germany's chancellor, is keen on summits. Since October she has presided over domestic ones on education and migrants. The financial crisis has demanded plenty of summits with other world leaders, from Paris to Washington. But on November 17th Berlin hosted one summit too many. Ms Merkel met the bosses and workers' representatives of Opel to discuss a bail-out of the carmaker, which is owned by America's ailing General Motors. Her foreign minister, Frank-Walter Steinmeier, promising to "fight for every job", held a rival summit of his own hours later with the works councils of big manufacturers and suppliers.

This glut of summits is not a good sign. Last year, when Ms Merkel was in charge of both the G8 club of rich countries and the European Union, she persuaded George Bush to take climate change more seriously and relaunched the European Union's draft constitution. An admiring press dubbed her Miss World. Yet during the financial crisis she has often looked lost. Her government was slow to grasp its severity, then erratic in responding to it. France's president, Nicolas Sarkozy, and Britain's prime minister, Gordon Brown, co-ordinated Europe's bank rescues. Although she runs Europe's largest economy, Ms Merkel has so far offered only meagre fiscal stimulus to fight the recession. And a bail-out of Opel could provoke a race for subsidies across the continent.

Joschka Fischer, a former German foreign minister, recently accused Ms Merkel of "acting purely nationally". Even the French, whose president is all too eager for leadership, are worried. A French official wonders why "the Germans are so absent" from Europe's deliberations. Germany has traditionally nurtured and steadied Europe, helping weaker members and steering a pragmatic course between the economic nationalism favoured by the French and Britain's free-marketry. "If Germany is not visible no other coalition can lead," says Ulrike Guérot of the European Council on Foreign Relations.

Many things hold Ms Merkel back. The crisis has hit just as Germany prepares for next September's federal election, which will pit Ms Merkel as candidate of the Christian Democratic Union (CDU) against Mr Steinmeier as candidate of the Social Democratic Party (SPD). The duelling car summits are a sign that the rift between the two partners in the "grand coalition" is widening. Germany may not be able to react to a crisis as readily as pragmatic Britain or presidential France, which are more centralised. Also Mr Sarkozy is prominent because he holds the EU's six-month presidency; Ms Merkel may feel she ought to defer, at least in public. But it would be a mistake to underestimate a politician whose guiding maxim is "in silence lies strength".

Lately Germany has looked shellshocked, not strong. Even in late September the SPD finance minister, Peer Steinbrück, dismissed the banking crisis as largely an "American problem". When the truth dawned the government enacted a €500 billion ($630 billion) bail-out package in record time, but banks have

been slow to take it up. Unlike Britain and France, Germany lets the banks decide whether to join the rescue, but imposes harsh conditions on those that boost their capital with public money. So weak banks are avoiding the stigma of participating, which weakens the financial system as a whole. Henrik Enderlein of the Hertie School of Governance in Berlin sees this as a “typical grand-coalition compromise” between the CDU, which shies away from state intervention in the private sector, and the SPD, which itches to punish financial fat cats.

With the whole economy now in need of a bail-out, Germany is balking. Earlier this month it announced an “umbrella for jobs”, promising €12 billion of fresh spending over two years, which will supposedly help to generate €50 billion of new investment. Germany’s EU partners reckon that a country with a budget close to balance and a big current-account surplus could do more. The European Commission is expected to propose a big stimulus package next week. Yet Germany has a deep-seated reluctance to relieve economic pain with deficit spending. It was largely at German insistence that countries in the euro agreed to limit their budget deficits to 3% of GDP.

Germany looks wilful partly because Ms Merkel has been so busy taming some of Mr Sarkozy’s wilder ideas. She rejected a common fund to rescue European banks, which led the EU to adopt a “tool kit” of measures that individual countries could draw from as they saw fit. Mr Sarkozy has treated the crisis as an opportunity to advance his long-cherished aim of beefing up the euro group as a potential political counterweight to the European Central Bank. Ms Merkel, who detects in such a notion an assault on the ECB’s independence, will have none of this.

Mr Steinmeier, who is under pressure from the SPD to demonstrate some economic leadership before the election, has now seized on Ms Merkel’s obstinacy as an opportunity. On November 13th he called for a nine-point European pact on the future of employment, including crash programmes to expand power grids and to festoon the countryside with broadband networks. “We need a strong European push, and that push has to come from Germany,” Mr Steinmeier declared. Differences between France and Germany over the euro and the ECB are narrower than they appear, he suggested. Then came his car gambit, which forced the government’s spokesman to make the assertion, normally unnecessary, that Germany has only one government.

Ms Merkel may be limping, but she is not paralysed. She brought more detailed proposals for financial reform to the Washington summit than did the Europeans as a group. Her reputation has slipped a bit, “but it started from a high level,” points out Ms Guérot. The flaws in the bank rescue may be corrected: Mr Steinbrück has reportedly signalled that banks accepting aid soon will be dealt with more leniently than laggards. And voters are impressed by Ms Merkel’s crisis management. Fully 68% back a government rescue plan for the economy, says a recent survey by Politbarometer, a pollster. If they could vote for the chancellor direct, 56% would choose Ms Merkel and only 28% Mr Steinmeier.

That may change as the economy slows and unemployment rises. A January election in Hesse, called after the SPD failed to put together a majority in the fragmented legislature, will heat up German politics earlier than expected. Her European partners may not like it, but Ms Merkel will now have her hands full simply trying to remain Miss Germany.

The Greens in Germany

Cem difference

Nov 20th 2008 | BERLIN
From The Economist print edition

Germany's first party leader from an ethnic minority

AP

A Turk at the top

CEM OZDEMIR has picked a good moment to be elected co-chairman of Germany's Green Party. All of Europe is on the hunt for a European Barack Obama. As the first Turkish-origin leader of a big party in Germany, Mr Ozdemir is the country's top contender. It does not hurt the comparison that he is thin, good-looking, charismatic and devoted to his family (wife and daughter).

Like the American version, he tries to transcend ethnicity, but in a different way. Mr Obama hoped that the historical significance of his election would work in his favour. Mr Ozdemir (who, as a Green, is unlikely ever to rise higher than foreign minister) seems eager to play down ethnicity altogether. "Is it so important to have a Turkish chancellor?" he wonders. "The fact that we're still talking about this shows how far there is to go." He blames both native Germans and immigrants. Germans must become comfortable with the "hyphenated identities" of some of their fellow citizens; immigrants and their children must accept that "this is not enemy territory." The first words he heard were in the Swabian dialect of Baden-Württemberg.

Mr Ozdemir, who is 43, would rather dwell on his youth. He decided to run for the party chairmanship after reading a newspaper headline claiming that the young shun responsibility. He wanted to show that a political high-flyer can have a normal family life. "Most of the old battles were not my battles," he says. That makes it easier to contemplate the exotic coalitions that may be necessary if the Greens are to return to power in what is now a five-party system. Potential partners range from the ex-communist Left Party to the Christian Democratic Union, the Greens' partner in the city-state of Hamburg. What matters is a coalition "with as much Green handwriting as possible," meaning one that defends civil liberties and social justice, and also fights climate change and nuclear power.

The Greens have two of everything, including candidates for chancellor, chairmen (Claudia Roth is the other) and political wings (left and realists). The rowdy left, which opposes the army's deployment in Afghanistan and likes to block the transport of nuclear waste, seems in the ascendant. Mr Ozdemir, a realist, was denied a spot on the party's electoral list in Baden-Württemberg. "The worst thing that could happen is we would get boring," he says. His rise to the top makes that less likely.

The euro-area economy

Laboured

Nov 20th 2008
From The Economist print edition

The euro area is officially in recession, so unemployment is likely to climb

CREDIT droughts should, one might hope, ruin the profligate before they harm the prudent. It has not worked out like that for the euro area. Figures published on November 14th revealed that its economy shrank in the third quarter, following a similar decline in the three months to June. It is the first time that GDP in the euro area has fallen in successive quarters (which is a common definition of recession) since the single currency was launched in 1999. It also means that the euro area, which exports roughly the same amount as it imports, has slipped into recession before America and Britain, which both enjoyed long consumer booms on the back of large current-account deficits. Is there no justice?

In fact short-term changes in output are not a very good gauge of recession. GDP figures are prone to big revisions, and filtering out seasonal influences and things like changes in the timing of public holidays is tricky. In practice, there is little to separate most big rich economies in terms of growth. The euro-area economy grew by 0.7% in the year to the third quarter, only a tad less than America (and somewhat faster than Britain). Germany and Spain did slightly better than the euro average, France did a little worse. Only Italy stands out for its terrible performance: its GDP is down by 0.9% on a year ago.

Recessions are feared mainly because they throw many people out of work, so what has happened to jobs is in some ways more interesting. Unemployment across the euro area has barely moved in the year since the credit crunch first bit, whereas it has risen in Britain and by even more in America. These countries have faster underlying growth than the euro area, so they lose more jobs when growth is sluggish. The euro area also has a less flexible labour market, so although unemployment is generally higher, it rises less rapidly in a downturn.

That said, a glance at individual countries shows the business cycle at work in Europe, too. Unemployment has jumped in Spain and Ireland, the two countries hit hardest by the property bust and the scarcity of mortgage credit. Italy's travails suggest that job losses are inevitable even in rigid economies, if a slump is deep enough. It is only a fall in unemployment in Germany that has kept the euro area's overall level stable (see chart).

As the downturn deepens, this disparity between Germany and the rest is likely to widen. Until recently, banks that were loth to lend to consumers were more accommodating to firms. Now the signs are that credit to companies is being cut too. David Owen, an economist at Dresdner Kleinwort, believes that investment and jobs are at greater risk where companies rely most on credit.

The "financing gap"—what firms need to borrow in order to maintain their spending—is around 5½% of GDP in France and more than 8% of GDP in Spain. The pain in Spain is already apparent. French firms are often slow to cut costs but eventually cave in, says Mr Owen. A dearth of bank credit could now force savage retrenchment. But Germany's cash-rich firms are under less pressure to prune budgets. Indeed, Siemens, an engineering giant, plans to use its cash pile to provide finance to some of its less well-heeled customers.

Germany's thrift extends to its public finances as well. Its government is the best placed to give the region a fiscal fillip: the budget was close to balance last year, and its borrowing costs are now lower than others because skittish investors favour Germany's more liquid bond markets. Yet the stimulus plan announced earlier this month was too modest to have much impact. Germany's caution is a problem for other countries, such as Italy and Greece, whose relative borrowing costs have risen during the financial crisis.

Investors might rush even faster into safer German bonds if these less frugal countries were to loosen the budgetary reins instead.

One way out of this impasse would be a big co-ordinated stimulus, which the European Commission will propose next week. This week Bruegel, a Brussels-based think-tank, suggested that each EU government should put in place a fiscal boost worth 1% of GDP next year, mainly through a synchronised cut in value-added tax. It argues that the countries most at risk of breaching the EU's fiscal rules should also commit themselves to reforms that stabilise their public finances in the medium term. Such a pledge might be needed to persuade Germany to sign up. Its politicians and citizens understandably feel that profligacy ought to carry a penalty.

Missile defence

A damp squib

Nov 20th 2008
From The Economist print edition

American missile-defence plans falter in eastern Europe

IRAN'S new medium-range missile, the Sajil, which was test-fired on November 12th, marks something of a technological breakthrough. It is fast and has a claimed range of 2,000km (1,250 miles). It might reach Moscow or southern Italy, say. Yet both Russia and Italy are opposed to American plans to place ten interceptor rockets in Poland and an anti-missile radar in the Czech Republic. The Italian prime minister, Silvio Berlusconi, has criticised the plan because it "provoked" Russia. The Kremlin has threatened to put short-range Iskander missiles in its Kaliningrad exclave (or possibly in Belarus, a close ally) if the missile-defence deployment goes ahead.

Raising the temperature even higher, Nicolas Sarkozy, the French president who (until the end of December) also presides over the European Union, said on November 14th that the American plan "does nothing to bring security and complicates things". That infuriated his Polish and Czech counterparts, who noted that France signed up to a decision at the NATO summit in April in support of missile defence. They also questioned what business a French president had pronouncing on other countries' security ties with America. Mr Sarkozy issued a partial retraction, saying merely that nobody should put new missiles in Europe pending talks with Russia about new security arrangements for the entire continent.

The incoming administration of Barack Obama seems unenthusiastic about missile defence as well. The president-elect says that he will support the programme "if it works". That marks a big shift from the Bush administration's policy, which is to deploy and develop in a "spiral" (meaning that bits would be deployed as and when they are ready).

All this leaves the Poles and Czechs who pushed for missile defence (against unenthusiastic public opinion) somewhat exposed. The Polish president, Lech Kaczynski, a strong supporter of the plan, claimed that Mr Obama had told him that missile defences would go ahead. But the Obama team issued a denial, leaving Mr Kaczynski, not for the first time, looking out of his depth. Radek Sikorski, Poland's foreign minister, who clinched the original deal with America, flew to Washington this week to sound out potential Obama administration appointees in more detail.

Poland is interested not only in the tacit American security guarantee that a missile-defence base implies (important if NATO's value to Poland frays because of German ties with Russia). It also won promises of American help with Polish military modernisation and of a battery of advanced air-defence missiles to protect Warsaw. If the Obama administration freezes missile defence (quite easy, given congressional hostility to the programme), other parts of the deal will be in doubt.

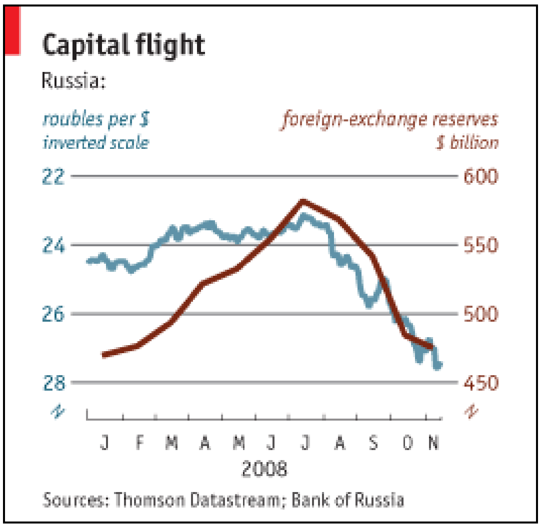
That is more galling since public support in Poland for missile defences has risen from 27% at the start of August to 41% after the Georgian war, when Condoleezza Rice, America's secretary of state, came to sign the deal and toast it in Georgian wine. Some Poles feel, crossly, that Mr Sarkozy is speaking for Russia, not for them.

Russia's economy

The flight from the rouble

Nov 20th 2008 | MOSCOW
From The Economist print edition

Russians and their government wake up to their deepening economic woes



RUSSIAN leaders like to radiate confidence and talk down financial crises. But stories of laid-off workers, unpaid salaries and involuntary holidays are having more impact. The government blames America and insists on the rouble's stability, but sceptical Russian people and companies have rushed to change their roubles into dollars. Now, after spending $57 billion defending the rouble in two months, the Kremlin is worried. This week President Dmitry Medvedev conceded that the crisis was spreading to the real economy.

Wage arrears rose by a third last month. Growth of industrial production, running at 5.4% in the first half of the year, has almost stopped. The World Bank predicts that economic growth will fall by half in 2009, to 3%. Rising oil prices and cheap credit—the two main sources of money for the Russian economy—have gone sharply into reverse. In just five months the stockmarket has lost two-thirds of its value.

In theory Russia should have been prepared for a drop in oil prices. It has a big stabilisation fund and the world's third-largest reserves. But even as it has saved money, Russia has allowed firms, including state-controlled ones, to borrow cheaply abroad. According to the World Bank, debt made up almost 85% of total capital inflows to Russia last year. The result is that, although Russia has $475 billion in reserves, external (mostly corporate) debt is higher. For the first time since 1998 Russia may be running a current-account deficit.

Rory MacFarquhar, an economist at Goldman Sachs, says the immediate concern is the rouble. The policy was to stop the rouble appreciating too fast when oil prices were high. Now the central bank is having to resist rouble depreciation. As Mr MacFarquhar puts it, Russia's reserves were meant to offset temporary drops in the oil price, not to keep the currency at the wrong level.

At first the government tried to blame foreign speculators for putting pressure on the rouble, but it soon became clear that the real pressure came from within Russia. Igor Shuvalov, the first deputy prime minister, says that the outflow of capital is the result of firms exchanging roubles for dollars, either to repay short-term foreign debts or to protect themselves from currency fluctuations. This has also undermined the government's attempt to inject liquidity into the banking system.

Natalia Orlova, an economist at Alfa Bank, says that non-payments between banks and firms are a growing problem. Rising wage arrears suggests that non-payments will also dampen consumption, the main source of growth in recent years. (State bureaucrats and those working for Gazprom, the state gas giant, seem oddly insulated from this problem.)

On November 11th the central bank allowed the rouble to depreciate against a basket of currencies by 1%. At the same time, it raised interest rates by a point to 12% to stem capital outflows. But this has made its job even harder. For by signalling that depreciation of the rouble will be gradual, it has only encouraged people to change roubles into dollars before the next currency move. Sergei Ignatiev, head of the central bank, says that interest rates should now rise above inflation, which was 14% in October. (Until now, Russia has had negative real interest rates.) But given the extent of state corruption and red tape, the small and medium-sized businesses that Russia needs to grow will struggle.

The central bank is now stuck between a rock and a hard place. Defending the rouble from further depreciation will bleed its reserves. Raising interest rates without liberalising the economy might suffocate

it. Devaluing the rouble in one go would be more helpful right now, Mr MacFarquhar argues, but it is politically impossible because the government (especially Vladimir Putin, the prime minister) has staked so much of its reputation on preserving a strong currency.

Spain and ETA

Cherokee captured

Nov 20th 2008 | MADRID
From The Economist print edition

A significant arrest in France will hurt the Basque terrorists

Reuters

Aspiazu, blanketed out

IT IS hard to be sure who really controls ETA, the violent Basque separatist group. But Garikoitz Aspiazu, who was arrested this week in the French ski resort of Cauterets, was near the top. Hiding behind the alias of Txeroki (Cherokee), he is thought to have been behind most of ETA's seven killings in the past two years. He may also have been responsible for calling off a ceasefire and ending peace talks with Spain's government in 2006.

The circumstances of his arrest say much about ETA. An American intelligence agency reportedly tracked his e-mails to his favourite cybercafés. But it was a set of obviously out-of-date false number plates on his car that gave him away. Add in two ETA members picked up a few days earlier as they bicycled through southern France and the picture seems increasingly amateurish.

ETA has shown itself to be both dangerous and unpredictable, but its ability to carry out terrorist acts seems to be dwindling. Between May 2003 and December 2006, when its nine-month ceasefire ended, it killed nobody. Thanks to Cherokee, ETA then returned to murders and bombing, but only sporadically.

Mr Aspiazu himself is thought to have pulled the trigger in an opportunistic killing of two undercover Spanish policemen who bumped into him in a supermarket car park in December. It was little surprise that the police made him their top target. Many of those behind recent ETA attacks are behind bars. Cherokee's arrest will damage ETA further. The contents of his laptops and memory sticks may lead to more arrests.

ETA has killed more than 800 people in 40 years. The odds are that, however limited the group's capability, somebody will fill Cherokee's shoes. What a pity.

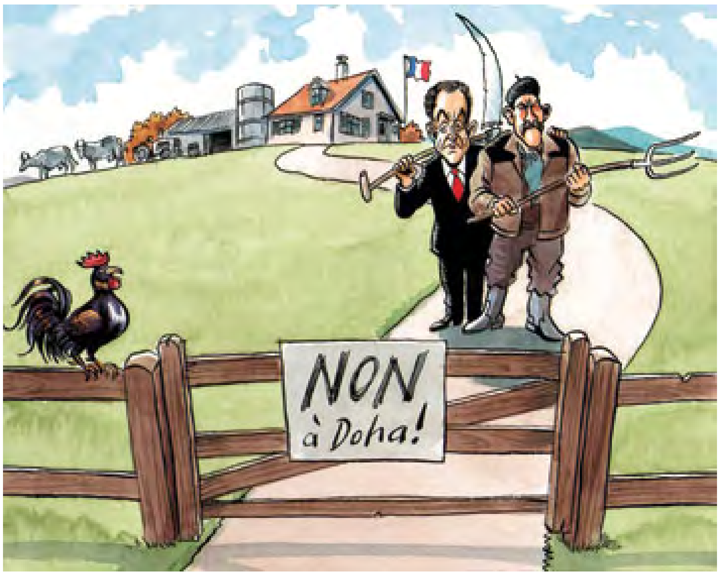
Charlemagne

The coddle and protect policy

Nov 20th 2008
From The Economist print edition

France's sneaky plans to continue Europe's farming follies

Illustration by Peter Schrank



FOR connoisseurs of French horse-trading, this has been a disappointing period. From peacemaking in the Caucasus to refounding world capitalism, the current French presidency of the European Union has taken on big tasks, resolved in the glare of world attention. Such crisis management has left little time for sneaky backroom deals to advance such traditional Gallic goals as obstructing free trade, pandering to farmers or channelling EU money into French pockets. But with just weeks of the presidency left, Charlemagne has learnt of a wheeze meant to pull off all three at once.

The French have summoned EU farm ministers to a special meeting on November 28th to discuss an exquisitely drafted paper on the common agricultural policy (CAP) after 2013, when the EU's next multi-annual budget begins. In theory, not much harm should come from conclusions endorsed by lowly farm ministers on a Friday in Brussels four years before the next budget. But senior Eurocrats fear that an accident of timing may make France more ambitious. They note that G20 leaders at the Washington summit on November 15th made a firm commitment to revive the Doha round of world trade talks, and reach a framework agreement by the end of the year (in unusually clear language, G20 leaders "instruct" trade ministers to pull off this feat).

Behind the scenes, says a senior Brussels official, the summit's European convener, President Nicolas Sarkozy of France, was "furious" at this push for a quick agreement on world trade. France is dubious about the EU's current negotiating offer to cut farm subsidies and dismantle many import barriers. But the French also know that the political costs of blocking a trade deal have risen. It would give the next American administration "all kinds of excuses" to water down other multilateral plans to save the world.

Amid such calculations, diplomats suspect that Mr Sarkozy will put the future of farming on the agenda for the final summit of France's EU presidency next month. That summit may coincide with a meeting of trade ministers in Geneva. In exchange for accepting these trade talks, Mr Sarkozy could ask his fellow EU leaders for a solemn pledge that substantial cash and protection for farmers will survive after 2013.

As it stands, the new French paper praises the core principles of the CAP, including "community preference" (favouring EU crops over imports), "market stabilisation" (ie, subsidies linked to production and the public purchase of food if prices fall) and preserving farm income. It talks of ensuring food security. This is better than earlier drafts, which talked of the EU's need for food independence. But the

latest draft also calls for the EU to contribute to "global food balances" in a world that may need to double agricultural production by 2050. Taken together, concludes an appalled diplomat, this is code for keeping the CAP broadly intact so that Europe "can grow lots of subsidised food and export it to the developing world."

The paper calls for action in rural areas to "maintain regional cohesion". This jargon refers to France's long-standing goal of preserving farms in every *département* of their country: so dairy farming, for example, can continue on high Alpine slopes. To achieve this, the French are prepared to put other people's money where their mouth is. A new report by the Robert Schuman Foundation, a federalist ginger group, calculates that, in ten of the 22 French regions, EU direct aid accounts for 100% of net farm revenues. Overall, France will scoop €10 billion ($12 billion) from this year's €53 billion CAP budget (which takes up over 40% of all EU spending), twice as much as any other EU country.

During the years of low food prices, the CAP was described as vital to keep farmers on the land. With today's higher but more volatile commodity prices, French officials have a new mantra: the CAP is vital to persuade farmers to grow food despite "increasing levels of risk". The French mean two things by this. The first may be sensible: insurance schemes against bad weather or pest outbreaks, say. But to the dismay of a reformist camp—the European Commission, Sweden, Denmark, Britain, the Netherlands, Estonia, and (on a good day) the Germans and Czechs—the French farm minister, Michel Barnier, says such schemes are a "foot in the door" towards American-style income insurance.

Protection by the back door

The sneakiest language of all concerns food "wholesomeness", and calls on the EU to promote "ambitious" health standards both "inside and outside" the union. After all, the French paper argues, the high standards demanded by European consumers risk distorting competition in a globalised economy. But this is really protection by the back door. Imports could be curbed by demanding that Brazilian beef farmers, say, meet EU standards not just on health (reasonable enough) but also on animal welfare, environmental protection or labour laws. Europe could even start demanding that such standards be verified at EU borders. Faced with the risk that a ship might be turned back, Brazil's beef barons might decide they cannot afford to send a small fortune in prime cuts across the Atlantic.

Ordinary Europeans are the victims in all this. EU leaders (not only in France) seem trapped by the perceived need to defend a rural way of life that is already long gone. Taxpayers and consumers pay the bill for this every day. France is a victim of its own policies. If the global food trade were fully liberalised, France should clean up: it is already a net exporter of food. It is a centrally located producer of high-quality food with a terrific brand identity, good infrastructure and a strong global trading tradition.

But European victims at least have a say, by electing their own governments. Farmers in emerging economies are victims without any say, as they are shut out of rich EU markets. If EU leaders defend protectionist farm policies in December, it will be more than a disappointment. It will be a cause for shame.

Environmental politics

A rod for our backs

Nov 20th 2008
From The Economist print edition

Britain decides that climate change is too important to leave to the politicians

PA

“GIVE me chastity and continence, but not yet,” Saint Augustine besought God more than a millennium ago. Those worried by global warming but unwilling to change their behaviour take a similar approach. Evidence of the damage that economic activity does to the planet is mounting, but given the cheapness and convenience of fossil fuels, the temptation to avoid tackling climate change for just another year (and another and another) is hard to resist. This is even truer as economic woes mount.

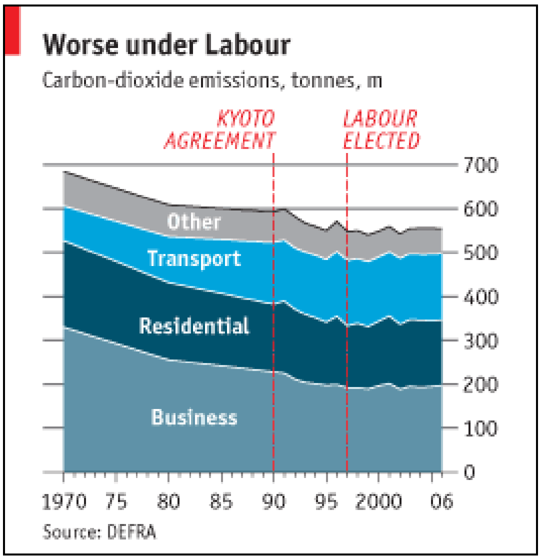
Britain’s government thinks it has a solution, and it is one that so far no other country has adopted. The approach is rather like that of a desperate dieter padlocking his pantry. If all goes according to plan, a climate-change bill will be passed next week that takes the power to set carbon-reduction goals away from politicians and enshrines them in law. A climate-change committee will recommend five-year carbon budgets for different parts of the economy, such as power generation, transport and manufacturing, with the ultimate goal of cutting emissions by 80% from their 1990 levels by the time 2050 rolls around.

Modelled partly on the Bank of England’s Monetary-Policy Committee, which was set up in 1997 to take interest-rate decisions out of the hands of ministers, the new Committee on Climate Change (now headed by Lord Turner, the head of Britain’s financial regulator and before that the author of important pension reforms) will publish on December 1st the first three carbon budgets, covering the period until 2022. Other countries may have more eye-catching ambitions than Britain (Sweden, for instance, aspires to phase out fossil-fuel use entirely), but nowhere else will the pledges have the force of law. Foreign governments and green groups are watching the British experiment with interest.

It sounds impressive, but British climate policy has never been short of grand visions. Tony Blair, Gordon Brown’s predecessor as prime minister, called global warming “the world’s greatest environmental challenge”, but made precious little progress toward cleaning up the British economy to meet it.

Britain will fulfil its 2010 obligations under the Kyoto climate treaty—a 12.5% cut in emissions compared with 1990 levels—but largely because the energy-market liberalisation of the early 1990s caused a one-off switch from expensive coal-fired power stations to cheaper and, incidentally, cleaner gas-fired ones. Greenhouse-gas emissions overall have fallen only slightly since Labour came to power in 1997, and carbon emissions have risen

slightly (see chart). Other pledges, such as the government's promise to generate 15% of Britain's energy from renewable sources by 2020, stand little chance of being met. Admittedly, all this amounts to a better record than many other countries can show, but it makes British aspirations to "global leadership" look a touch threadbare.

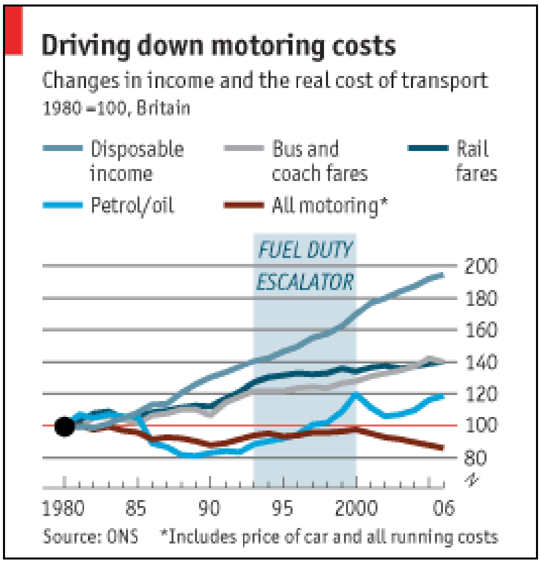


Ed Miliband, the new climate-change minister and the foreign secretary's brother, is leading a new drive to get Britain to meet its various targets. Energy and planning bills, shortly to become law, include provisions to increase subsidies for renewable energy and to get new nuclear-power stations and wind farms through Britain's sluggish planning system. But the core of the effort lies in the climate-change bill's legally binding targets. "The advantage", says Martyn Williams of Friends of the Earth, an environmental group that has been pushing the bill for two years, "is that this doesn't leave things to distant, politically fudgeable targets."

But although the idea of applying the unforgiving sternness of the law sounds attractive, it is not clear how the planned legal straitjacket is to work. Government targets usually apply to bodies such as schools, hospitals or individual departments which can be punished if they fail to meet them. The emission-reduction targets would apply to the whole country, making any notion of punishment nonsensical. Instead, Mr Williams hopes that judges will enforce the rules against the government itself, citing a recent court case in which the judge agreed with Greenpeace that an official consultation on nuclear power had been unlawfully conducted and ordered that it be run again.

The government insists that the shame of breaking its own law will be enough to keep it in line even if enforcement proves impossible. Maybe; but the climate-change committee's carbon-budget recommendations can be ignored, the 2050 target is a very distant one and nobody is going to go to jail if it is not met. Hence the worries that the climate-change bill will in the end prove as fudgeable as other government commitments. And, ultimately, any future government can repeal it.

The government's record on meeting other, related, targets does not inspire confidence. In 1997 John Prescott, who was then the deputy prime minister and in charge of transport policy, declared: "I will have failed if in five years' time there are not... far fewer journeys by car." Five years later, traffic had risen by 7%. Attempts to hold down its growth were not helped when, in 1999, ministers retreated from an unpopular policy of above-inflation tax hikes on petrol and in 2000 reduced fuel duty further (see chart and videographic). Climate-change targets are likely to come under similar pressures. In his report on December 1st, Lord Turner will probably call for more nuclear-power stations and wind farms. But both are more expensive than fossil-fuel plants, and are therefore likely to lead to an increase in electricity prices.



The timing of all this looks especially bad. People are unlikely to be receptive to a message of voluntary austerity in the midst of a severe economic downturn. But if the global economy has taken a turn for the worse, so, it seems, has the global climate. Sea ice in the Arctic is melting more rapidly than climate models had predicted. On October 31st a paper in *Nature Geoscience*, an academic journal, announced evidence of warming in Antarctica, until now the only continent where temperatures had stayed constant. In 2007 the Intergovernmental Panel on Climate Change predicted sea-level rises of between 18cm (7 inches) and 59cm by 2100. Since then, several studies suggest that those estimates could be conservative.

Job losses

When it gets personal

Nov 20th 2008
From The Economist print edition

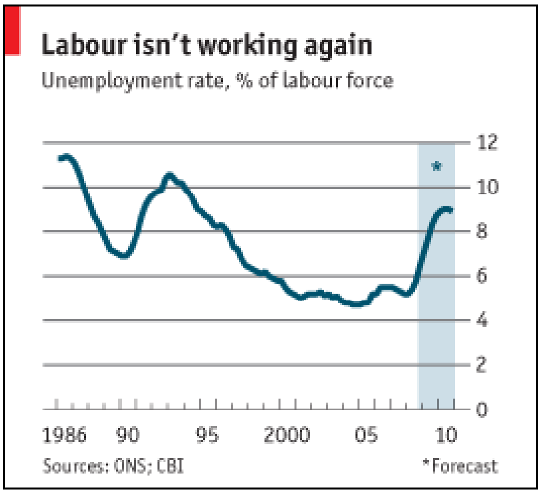
The downturn is now gripping the labour market

FOR many Britons, especially workers and those looking for jobs, the past few days were when it all sank in. Falling GDP is one thing, a worry to be sure but still abstract. Lay-offs are another, evoking the insecurity of the recession in the early 1990s.

Scarcely a day goes past now without an announcement of job cuts. On November 13th BT, a telecoms company that has cut 4,000 jobs since April, said it planned to get rid of a further 6,000 by next spring; most of the losses, which include workers employed by outside contractors as well as the firm's own staff, will be in Britain. On November 17th Citigroup outlined big job losses around the world; among these will be some of the American bank's 11,000 employees in Britain. The following day Wolseley, a building-materials firm, said that it would cut around 2,000 British jobs.

Already, unemployment has started a menacing climb. The jobless rate has risen from 5.2% in the first three months of 2008 to 5.8% in the third quarter. That has taken the number of people out of work and looking for jobs to over 1.8m, the highest since 1997. The narrower measure of people claiming unemployment benefit (which excludes in particular many jobless women because their partners' earnings make them ineligible for it) is poised to break through the politically sensitive 1m mark. The three months to October saw a rise of 108,500, the biggest such increase since the end of 1992.

It will get a lot worse before it gets better. A forecast from the Confederation of British Industry (CBI) this week portrays the pain that lies ahead. The employers' group thinks the claimant count will rise to 1.9m in 2010, and the wider measure of unemployment to 2.9m. That will push the jobless rate to 9%, worryingly close to the previous peak of 10.7% in 1993 (see chart).



All this will put a chill in the air after 15 years in which workers have generally not had to worry about losing their jobs. Indeed, employment grew steadily, on an annual basis, from a low of 25.3m in 1993 to a peak of 29.5m this spring. When the economy slowed, as it did in 2002 and 2005, employers did not sack workers but instead clung on to them.

But in the third quarter of this year, employment fell by almost 100,000 from the previous three months. That decline looks set to worsen as firms batten down the hatches. Employers were reluctant to get rid of staff because redundancies are expensive and destroy morale among those who keep their jobs, says John Philpott, chief economist of the Chartered Institute of Personnel and Development. Now many believe they have no other option. Although a slowdown in immigration may soften the blow for those seeking work, the impact will still be severe.

Initially, job cuts were most apparent in finance and homebuilding. Now they are spreading throughout the private sector, says Lai Wah Co, the CBI's head of economic analysis. Manufacturers surveyed by her group are more pessimistic about the outlook for production over the next three months than at any time since 1980.

The regional profile of the recession is changing too. London is particularly vulnerable because of its dependence on financial services. A study for the Local Government Association published this week suggests that London will lose 374,000 jobs—a bigger share of its employment than elsewhere—over the next two years.

But early hopes that other regions might get off lightly have been dashed. Over the past year, the jobless rate has risen more in the north-east and in Yorkshire and the Humber than in London, and by as much in Wales. As the economic woe ripples out from finance, no part of the country will be spared a sharp rise in unemployment, says Mr Philpott. Across Britain, the recession is turning personal.

Organ transplants

Opting out of opting out

Nov 20th 2008
From The Economist print edition

Britain rejects “presumed consent” for organ donors—for the time being

Illustration by David Simonds

FIRST the good news. More than 3,000 people in Britain received life-saving organ transplants last year, thanks to the generosity of willing donors and their families. Then the bad. Another 1,000 died after waiting in vain for a suitable donor. Over 8,000 remain on waiting lists, 50% up on a decade ago. Thousands more have not bothered to sign up, knowing how slim their chances are. These figures come from an independent task-force, whose report to the government on the matter was published this week. It is a desperate situation.

Throughout the world, but particularly in prosperous countries, demand for organ transplants is growing as ageing populations, hypertension and obesity take their toll. The problem has been exacerbated by a fall in road deaths in rich countries—one of the main sources, along with strokes and heart attacks, of healthy organs for transplant. Meanwhile, advances in science are boosting demand still further.

What is to be done? Strongly backed by the British Medical Association, Gordon Brown, the prime minister, has been looking at increasing the supply of organs by shifting to the system of “presumed consent” that most other European countries use. Under this approach, a person is assumed to be a potential donor unless he registers his objection. Britain currently assumes the opposite: those who wish to become donors have to indicate their willingness to have their organs used for transplant after they die.

It seems logical to suppose that an “opt-out” system would produce a bigger pool of donors than requiring people to “opt in”. But this is not always the case. True, Spain, with its “presumed-consent” law, is the world champion of cadaveric organ donation, with 34.4 donors per million inhabitants compared with Britain’s meagre 10.6. But Greece, where people also opt out, has a donor rate of only 5.6, whereas opt-in America has the second-highest donor rate in the world at 26.6.

Other factors are obviously at play. In Spain, for example, donor rates did not begin to rise significantly until an effective national transplant infrastructure had been set up, backed by publicity to educate the public and explode myths. This was a full decade after it had gone over to an “opt-out” system. Indeed, the more Britain’s task-force examined evidence from around the world, the more multifaceted the problem and the less obvious the benefit of presumed consent appeared to be.

Not only might a shift to presumed consent damage the vital relationship of trust between dying patients and their doctors, the task-force says, but it could also remove the emotional benefit to recipients and their families of knowing that the organs had been freely surrendered—as a gift.

Donation rates in Britain could be increased by at least 50% over the next five years by improving infrastructure and publicity as Spain did, the report holds. Although more than two-thirds of Britons say they would be willing to become donors, only a quarter have signed up on the Organ-Donation Register. Many do not even know of its existence. Others feel queasy about contemplating their own death. Some fear they are too old (though organs can be retrieved successfully from people into their 80s). Others worry about religious prohibitions (in fact, all the main faiths support organ donation).

The public debate over presumed consent has already increased the number of registered donors by 17% over the past year; that means 1m more potential donors. The government launched a £4.5m ($6.7m) “donation-awareness campaign” this week in the hope of boosting numbers to 25m by 2013, some 10m more than at present. If it doesn’t, Mr Brown says, he will look again at presuming consent.

Northern Ireland

Jaw-jaw, please

Nov 20th 2008
From The Economist print edition

Belfast's stop-start government rumbles on again

IT'S an odd sort of deal, but then Belfast's devolved administration is an odd sort of edifice. The unionists and republicans who agreed in 2006 to run the show together have not even been holding meetings of their executive since June. The Democratic Unionist Party (DUP), the province's largest party, had refused to fix a date for the handover of policing and justice from Westminster to Stormont. That provoked Sinn Fein, the second-largest, and nationalist, party, to veto the meetings.

But on November 18th Peter Robinson, the DUP first minister, and Martin McGuinness, the Sinn Fein deputy first minister, said they would jointly chair a meeting of the executive on November 20th. The handover would happen without delay, they said—although no specific timetable was announced.

Nor is one likely to be soon. Mr Robinson's hold over his fractious supporters is weaker than that of his predecessor, the Rev Ian Paisley. Too much chumminess with republicans might turn off wavering DUP voters before next summer's European parliamentary elections.

What unionists fear most is that a former IRA member could end up running the police. To calm their fears, Sinn Fein agreed in August that at the outset neither it nor the DUP should run the justice ministry, and that the initial appointment of a justice minister should be agreed by the Assembly's unionists and republicans. This arrangement, said Mr Robinson and Mr McGuinness this week, should be reviewed in May 2012.

The two men also declared themselves "minded" to appoint John Larkin, a prominent Catholic lawyer and former member of the small cross-community Alliance Party, as Northern Ireland's first attorney-general. That adds credence to previous speculation that an Alliance member would get the job, even though the party is not one of the big four that together make up the executive.

Sinn Fein still has many other quarrels with the DUP: over the end of academic selection in schools; over the granting of legal status to the Irish language; over the building of a "conflict-transformation centre" at the site of the former Maze prison (a "shrine to terrorism", say unionists). But after announcing their breakthrough, Mr Robinson and Mr McGuinness felt chatty enough to go to London in search of goodies for the voters back home. They asked Gordon Brown, the prime minister, to pay for winter-fuel grants for Northern Ireland's pensioners, and for water services so that they can postpone the introduction of water rates. And they want money to finance the proposed new justice administration—whenever it emerges.

Politics and the economy

Last of the big spenders

Nov 20th 2008
From The Economist print edition

Labour and the Tories converge in the polls as their policies go separate ways

AS WELL as pawnbrokers, bankruptcy lawyers and economic pundits, the list of those who benefit from a recession should now include anyone bored by political consensus. Recent weeks have seen the government and the opposition espousing contrasting visions for an economic recovery. Gordon Brown, the rejuvenated prime minister, favours tax cuts and spending to boost demand while the Conservatives, with an eye on Britain’s dire public finances, urge fiscal restraint.

Such an open debate about economic first principles had become unthinkable in recent years. The divide began to take more precise shape on November 18th, when David Cameron, the Tory leader, revised a year-old commitment to match Labour’s planned spending totals until 2010-11. The Tories now say that spending should grow by less than the government’s planned 2.3% rise in the last of those years, and should also be below its projections in the following ones.

The practical implications of the new policy are not profound. The party had always said it would review the total for 2010-11 in 2009 and, given that an election does not have to be called until June 2010, the Tories are unlikely to be in power before that year anyway. Moreover, the government itself may reduce its spending plans for 2010-11 and thereafter in its pre-budget report (PBR) on November 24th.

Nevertheless, the symbolism matters: the original pledge was designed to protect the Tories from accusations of secretly planning cuts in public services, which had helped to doom the party at successive elections. The new policy speaks to their confidence that voters forced to tighten their belts will demand similar parsimony from the government.

It also reflects the Tories’ need for a distinctive economic message to fend off a surging Mr Brown, however. A MORI poll released on November 18th showed Labour trailing the Tories by just three percentage points. A YouGov poll two days earlier put the gap at five points—still a vanishingly small margin compared with the double-digit leads Mr Cameron enjoyed before the financial crisis. Tories point out that their support has not fallen below 40%, but some of Westminster’s more excitable denizens whisper that Mr Brown may call a snap election next spring.

Whether or not the Tories’ new policy snatches momentum from the prime minister, it should at least pacify those on the right who grumble that the Tories have been too timid in the face of economic downturn. Some want the party to support the tax cuts likely to be proposed in the PBR. They will be disappointed, but can now console themselves with a promise of slower spending growth leading to permanent tax cuts later. George Osborne, though clearly diminished by recent scandal and a perceived lack of heft on economic matters, was never in real danger of being sacked as shadow chancellor, despite Westminster gossip. But he will nevertheless be grateful for a bone to throw to growling critics in his own party.

For both parties, much now rests on the PBR. Determining the exact size of the Keynesian splurge is a fraught business for the government: too small, and there will be little impact on the economy; too large, and concerns about government borrowing (reflected in the decline of the pound) will grow. As for the Tories, a downscaling by the government of spending plans beyond 2010-11 could shoot their fox. If the plans remain as they are, however, Mr Cameron will be grilled by Labour as to exactly which bits of spending he proposes to cut. That line of attack worked for Mr Brown during the boom years; it may yield diminishing returns during a recession.

Hull and the Humber

Recession-proof?

Nov 20th 2008 | HULL
From The Economist print edition

What never boomed may be less prone to go bust

AS THE winter sun glances off luxury boats in Hull's marina and the fine statuary of its civic buildings, shoppers throng the spanking-new St Stephen's shopping centre. The prospect of recession or even depression seems remote. But a new survey of English regions by local councils released on November 17th puts the area around Hull among those most at risk of big job losses right up to 2012.

A miscalculation, says Mark Jones, head of regional development at Hull City Council. There are several reasons why Hull is better equipped now than when recession hit in the 1970s and 1990s. Trawler fishing, once its mainstay, is no more. "Last year we didn't land one fish," says Gareth Russell, head of operations at the ports of Hull and Goole. Now Hull's main companies make health-care products, food and chemicals, which are essential enough not to be spurned in a downturn. Ports in the Humber estuary, including Hull, Goole, Grimsby and Immingham, are together the busiest in Britain, handling steel, coal, timber and containers. The place never had a housing boom (Hull rates as the second-worst place to live in Britain, according to a popular television programme), so the local economy escaped overheating, and its people and small businesses avoided excessive debt. Nor is there yet an active financial sector—perhaps a blessing, although that may change. Most important, however, is the "renaissance" which locals insists has been gathering pace since 2002.

Three good things happened that year: the completion of the KC Stadium, which inspired the Tigers, a now highly successful football team; the building of The Deep, a marine theme park which attracts 450,000 visitors a year; and the ousting of a local government team who were allegedly hostile to business and education. Since then the city's development has been more methodical.

A report by IBM in 2006 saw opportunities for Hull in three main sectors: health care, logistics and renewable energy. Smith & Nephew, Reckitt Benckiser and Seven Seas (owned by Merck) already make health-care products that are sold around the world. Companies operating at Hull port employ 15,000 people directly and create jobs for another 25,000 in the region. Hull's College of Further Education has many takers for its course in logistics.

Renewables are perhaps the brightest hope. A £200m bioethanol plant is to be built at Saltend, where BP's acetic acid plants are already the biggest in Europe. Drax, which operates a coal-fired station 30 miles inland, intends to invest £2 billion in three biomass power stations. E.ON and DONG Energy are planning to build offshore wind farms in the Humber estuary, and Hull University (which is increasingly involved with local businesses) is investigating Humber tides as a power source. All this should provide jobs for local people.

Not quickly enough, however, for the several hundred laid off recently by a clutch of local caravan makers: caravans are a cyclical business, say locals. The number of those claiming unemployment benefits as of October 9th was 25.7% higher than a year earlier, on council figures, although the East Riding hinterland is faring worse, with a 33.9% increase. Construction is sagging, too. Plans to add 220 homes to the St Stephen's complex are on hold, and the council's development of the east bank of the Hull River is being slowed to cushion an anticipated slump in house prices.

But Hull City Council is convinced that support for housing and retail development, along with business start-ups, is the right strategy, even in the teeth of recession. There had been a "leakage" of shoppers to Leeds and York, around 45 minutes away. Moreover, for the first time Hull can offer a choice of fine apartments (penthouses at £450,000 apiece) and smart offices (at £17 a square foot). Another planned development, of the former fruit market near the waterfront which until recently teemed with colourful nightlife, will in theory offer a quaint mix of housing, office, retail and leisure space.

Whether that will make Hull a magnet for the affluent and white-collared remains to be seen. Those who come are often pleasantly surprised, say locals, though BP, which wanted to move 25 employees from

Sunbury-on-Thames, persuaded only six. New tenants at Humber Quays, prime offices on the waterfront, include two banks—RBS and Barclays—accountants PWC, and a law firm. Northern Foods had planned to take the space but decided on Leeds instead, for “logistical” reasons.

Protecting children

Harm done

Nov 20th 2008
From The Economist print edition

Those most at risk are best dealt with by specialists

THE tortured life of Baby P, and his hideous death at the hands of his mother and two men, convicted on November 11th, have provoked a national bout of soul-searching and recrimination. The toddler was killed despite being under close scrutiny by child-protection services in Haringey, the north London borough where he lived. That has led to questions about how children are protected from harm, both in Haringey and elsewhere.

An independent review of children's services in Haringey is now under way. If its conclusions, expected by December 1st, are damning, senior staff are likely to be sacked and replaced by a government-run hit squad. Some egregious failings have already come to light, notably failures by social workers and doctors to spot serious injuries. But many of the problems that bedevil Haringey are replicated nationally.

One is that child protection is by its nature difficult and thankless: staff are pilloried as busybodies when they intervene and as incompetents when they don't. So few come forward to do the job, and those who do are stretched thin. The job is getting harder, too: old hands say many more parents are drunk or drugged than a generation ago. Keener awareness of the dismal outcomes of state care—most children who have been in care fail in school; many turn to prostitution, drugs or crime and end up in prison or on the streets—means that dire parenting is often seen as the lesser of two evils. And there aren't enough foster carers and children's homes anyway.

But recent changes to the way social work is managed threaten to make a bad situation worse. After a previous horrific child killing—that of Victoria Climbié in 2000, also in Haringey—social work as it pertains to children was brought under the ambit of "children's services", which also encompass education and big chunks of policing and health care. The intention was to stop maltreated children from falling through gaps between agencies. The reality is that child protection is now one end of a continuum that stretches right through to teaching all children to spell, and persuading them to eat their fruit and veg.

Only 30,000 children are on the "at-risk" register at a time; 10m are in schools. So children's services are mostly run by staff who know a lot about education but less about social work: Sharon Shoesmith, Haringey's director of children's services, was previously its director of education. After Baby P's killers were found guilty she went on television to tell a startled nation that "the very sad fact is that we can't stop people who are determined to kill children." That provoked calls for her resignation from folk who thought trying to do exactly that was part of her job. But 68 Haringey head teachers defended her, citing the borough's improved exam results.

Managers who have worked their way up in education have become acclimatised to its all-pervasive targets, too. The negative consequences for education are widely recognised: the teaching to the test; the narrowing of the curriculum. But the effects on child protection are only now becoming apparent. Sue White of Lancaster University has studied the Integrated Children's System on which child-protection workers must record their every deed. "It regularly takes up 80% of social workers' days," she says. "Because red icons flash at them if they miss deadlines, its demands feel more pressing than their home visits."

Eileen Munro, an expert in child protection at the London School of Economics, is particularly scathing about government targets that mean children's services are rated more highly if they put fewer children on the at-risk register in the first place, and take those on it off again, smartish. So social workers are rewarded, she says, for spending less time gathering evidence of abuse, and for bailing out on families with difficulties that are long-lasting but not severe enough to warrant taking the children away. And identifying and protecting the abused minority is harder now that they are seen against the backdrop of the adequately parented masses. "It doesn't get any easier to find a needle in a haystack if you make the haystack bigger."

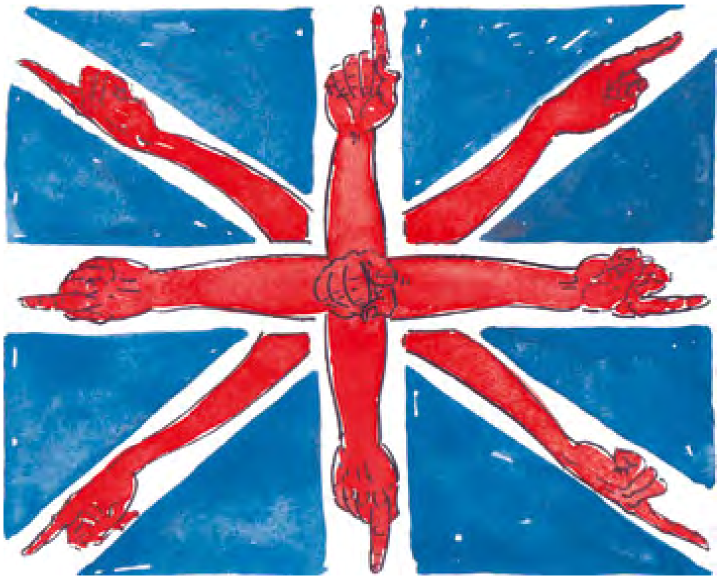
Bagehot

Heads must roll

Nov 20th 2008
From The Economist print edition

The dangers of Britain's fixation with blame

Illustration by Steve O'Brien



JUST before Halloween, an enterprising fancy-dress firm got up an unusual online petition. It requested a posthumous pardon for eight witches, test cases for the several thousand hanged or burned at the stake in England and Scotland between the 16th and 18th centuries. The justice secretary appears unmoved.

There are no professional witch-finders or catch-22 dunkings in modern Britain; there are fewer epidemics or livestock blights of the kind that fuelled the bloodlust of the witch-hunts. But there are other factors that sometimes conspire to produce an atmosphere that seems almost as hysterical: a tabloid media that are at once sensationalist and stridently censorious; a reductively adversarial parliament; and a centralised system of government, in which the fault for almost any cock-up can be traced to the top. There is also a creeping, American-style taste for litigation. The result is a political culture dominated and warped by blame.

Consider the frenzy of blame set off by the awful killing of a toddler, known as Baby P, by his mother and two men. Perhaps because of the queasiness aroused by parental violence—or perhaps because the criminals had already been judged when the details emerged—public and political anger has largely been displaced on to the doctors and social workers who might have prevented the death. They have "blood on their hands", yell the tabloids, which publish their mugshots and demand their sacking.

But there has been a wider, furious festival of blame in Britain recently. Two comedians make cruel jokes on BBC radio: heads must roll! (They did—one of the comedians, plus two executives, were forced out.) The chaotic shooting of an innocent Brazilian electrician by anti-terrorism officers in 2005 led to a long quest for the scalp of London's top copper (he eventually quit in September). Meanwhile, in politics, a bounce for Labour in the polls has prompted a stage-whispered bid by some Conservatives to oust George Osborne, the shadow chancellor. Most public figures now avoid stigmatising whole groups, but feral children remain fair game for bully-pulpit moralisers.

It is easy to understand blame's appeal. It offers a simple narrative of how problems and tragedies arise, and a beguilingly simple solution: sack, punish, excoriate the culprits. It is doubly alluring for politicians and newspapers. Their blame campaigns can yield easy, tangible victories if their targets succumb—especially gratifying if the quarry is another politician.

The trouble is that it is not always the worst or most culpable people who are targeted for blame or offered up to appease it; it is sometimes the weakest and most expendable instead. And too often the blamers are cynically opportunistic. The Baby P case has instantly been adduced as “proof” that the welfare state, or local councils, or unorthodox family arrangements, are hopelessly delinquent. (Oddly, some of those now crying out for the government to engineer families and emasculate councils have, in the past, demanded that the government be less intrusive and nannying, and that Whitehall give more power away.) For inveterate enemies of the BBC, the radio scandal was a happy if irrelevant pretext for reviving the debate over how the corporation is funded. Despite his previous successes—or perhaps partly because of them—there are bits of the Tory party who have never loved Mr Osborne and are eager for a chance to humble him.

Moreover, by fixing blame on individuals, complex failures and hard decisions can be missed or evaded. More unsettling explanations and wider culpability can be ignored. By blaming Mr Osborne for their poll dip, restive Tories can dodge the possibility that a collective lack of coherence or plausibility may lie behind their plight. Conversely, it may be comforting to claim that the incipient recession, and all its nasty consequences, are solely the fault of Gordon Brown—and not, say, of those thousands of homeowners who took out foolish mortgages that they are unable to service. So long as it’s someone else’s fault—the government or the schools or, increasingly, your genes—it isn’t your own.

The idealism of the lynch mob

As well as vengeful and primitive, the kind of blame swirling around Britain is also, in its way, naively optimistic. It contains a fairy-tale idea of the future: if the guilty are identified and punished, it (whatever it is) will never happen again. Delicate judgments about risk—such as the risks of taking a child into care versus the risk of leaving him with his parents—will never again be miscalibrated; emergencies will never yield mistakes; criminals will never outwit the authorities; the tastes of editors will never lapse. There will be no accidents and no human error. (In a way, blame is an inverted form of deference: it implies a faith that the authorities and experts and leaders could be impeccable.)

There is even, perhaps, a faint trace of magic in the blame syndrome. Somehow, subliminally, blame may seem to mend not only the future but the past too. Finding and removing an offender can sometimes make it feel that his crime has been not only avenged, but undone; that time has been expunged.

None of which is to deny that blame can be useful. Indeed, it is morally vital: to excuse individuals of blame, to separate actions from consequences, is to deny their autonomy. Blame is a key component of progress. If it is not attributed and accepted where it is due (as it may well be for some of those well-meaning outsiders involved in the Baby P case), failings go uncorrected. Blame is one of democracy’s gifts and virtues; a society without blame and accountability is doomed to stagnation and misrule.

But an excess of blame—blind and unthinking as it often seems—can be as dangerous as a deficit of it. Vitriolic blame can wreck morale in institutions such as hospitals (or, indeed, in social services). It can inhibit decision-making and worthwhile risk-taking. And it can be both intellectually lazy and delusional. The wrong kind of blame reflects a false, dangerous simplification—and a false, childish hope.

Correction: Vattenfall

Nov 20th 2008
From The Economist print edition

In the issue of November 15th ("The green pound") we said that Vattenfall was building a wind farm with Scottish Power off Kent. Wrong. That wind farm is Vattenfall's alone; the alliance will bid for other projects. Apologies.

Choosing judges

Wanted: better judgment, fewer crowd-pleasers and lickspittles

Nov 20th 2008
From The Economist print edition

Should judges be elected or appointed? In the case of international courts, this age-old conundrum has a new twist

Illustration by Claudio Munoz

BARACK OBAMA wasn't the only person selected by American voters this month. They also cast ballots for thousands of state-court judges, after expensive, rancorous campaigns. No other nation in the world chooses judges by this stirringly democratic method, as Sandra Day O'Connor—the first woman to sit on the Supreme Court—has noted. In her view, that is because most countries know "you're not going to get fair and impartial judges that way."

Barring a few Swiss cantons, the elevation of judges by popular vote is indeed rare. But in international tribunals, from the International Court of Justice (better known as the World Court) to the European Court of Human Rights, judges are typically elected—albeit by national representatives, not popular franchise. And as with the American system, there is no guarantee that such ballots will produce individuals who are qualified or honest. As a result, decisions affecting millions of lives can be taken by questionable people: "government hacks and lickspittles, with little or no judicial experience, who have demonstrated their loyalty to their governments by defending the unconscionable," as one human-rights lawyer puts it.

Among the five judges elected earlier this month by the UN General Assembly and Security Council to the 15-judge World Court was a nominee from Somalia, a country listed by Freedom House, an American think-tank, as among the "worst of the worst" in respect of civil and political liberties. Of course, bad countries can produce fine individuals; but some find it troubling that the court, which rules on disputes between states, now includes three judges from countries rated by Freedom House as "not free" (China, Russia and Somalia) and another three from countries deemed "partly free" (Jordan, Morocco and Sierra Leone).

Critics of the court have tried to draw a link between its dubious membership and its more controversial decisions. Soon after the court's "advisory opinion" of 2004 on the wall erected by Israel in the West Bank, calling the barrier a breach of humanitarian law, Eric Posner, a law professor at the University of Chicago, made a withering attack. Blasting the court as "irrelevant" and increasingly ignored, he blamed partial judges for its decline. He claimed that 90% of the time they vote for their home state—or else line up with nations of a similar stripe: the rich with the rich, the authoritarian with the authoritarian. Of course, his points do not prove that the court was wrong about the wall—but they do challenge its role as a moral arbiter.

Getting a seat on a UN-backed international tribunal, with a salary of around $170,000 a year, is a tempting prospect in poor countries where judges earn barely a tenth of that. Small wonder that some governments promote candidates as a reward for services rendered. (One member of a war-crimes tribunal turned out to have few qualifications other than being the cousin of his country's president.) But stereotypes can mislead: many judges from poor places are outstanding, while those from rich lands can be dreadful.

The 47 judges of the European Court of Human Rights, one for each member of the Council of Europe (not to be confused with the European Union), are elected by the council's parliamentary assembly. The only requirement is that candidates be of "high moral character" and either have the qualifications required for high judicial office in their own country, or are lawyers or academics "of recognised competence". This is not a high hurdle for candidates from ex-communist countries whose legal systems are still tainted. Many nominations reflect cronyism, not legal expertise—and the European Court's rulings are binding on all member states.

Similarly vague qualifications are asked of the 18 judges of the International Criminal Court, along with a need to reflect the world's main legal systems and a desire to achieve an "equitable" distribution by geography and sex. Appointed usually for nine years, ICC judges must be elected by a two-thirds majority of the court's 108 member states. All but two of the present bench are from lands deemed "free" (including some poor ones); none is from a "not free" country.

As the ICC has yet to start its first trial, it is too early to judge its judges. But in America, where some 60% of state appellate judges and more than 80% of state trial judges face contested elections, noisy political contests certainly contribute to an endemic lack of confidence in the judiciary, at least at state level. (Federal judges are not elected.) Most states allow candidates to raise funds, often running to millions of dollars. According to one poll, 70% of Americans think campaign contributions sway judges' decisions. At least international courts are not plagued by angry electoral battles. Indeed, given the hurdles faced by such tribunals, it is amazing how well most of their judges do their job. But they might work even better were they to adopt the merit-based model now being set up by the UN—in the first overhaul of its own internal justice system (which deals with discipline and grievances) in more than 60 years. Some 50,000 UN staff around the world will be affected.

Following a report by a panel of experts who called the present peer-review system "outmoded, dysfunctional and ineffective", Ban Ki-moon, the UN's secretary-general, has named a five-member Internal Justice Council, including three distinguished external jurists. Its job is to advise on suitable candidates for a new, two-tiered, independent system, staffed by professional judges with at least ten years' experience. Although the council was asked to pay "due regard" to geography, this is no longer a deciding factor.

In response to press advertisements (another novelty) as well as through the UN's own website, 237 applications were received from 55 countries. The 41 top candidates went to The Hague for an interview and two-hour written exam, before a final list of 25 names was drawn up, roughly two for each available post. Two-thirds of the finalists come from countries with sophisticated judicial systems. That should cut the risk of lamentable choices when the General Assembly elects the new judges next month.

The environment and people power

Revolutions coloured green

Nov 20th 2008 | ATHENS AND NEW YORK
From The Economist print edition

New ways of sharing data and rallying support are a boon for eco-warriors

AP

Angry Indonesians catch the global eye

THINK of spectacular popular protests, of the kind that make clever use of technology to mobilise support, flummox the authorities and disseminate facts and images. In many countries, that sort of approach has been well used by political opposition movements, bent on overturning regimes or reversing electoral fraud.

But more recently, both lone dissidents and bigger campaigns have been employing the latest "people power" techniques in a different way: challenging bad environmental decisions, especially the sort that result from corrupt or non-existent governance. Eco-protest may lead, in time, to political change, but the focus is narrower.

At a recent conference in Athens on corruption, campaigners from many countries brought stories of their efforts to challenge environmental abuse in innovative ways. In Armenia, for example, the local branch of Transparency International—a global anti-corruption movement—has to contend with a government that seems humourless and harsh. So campaigners against a proposed mine in northern Armenia, which risks destroying a pristine forest, devised colourful responses which the authorities couldn't repress without looking foolish. In a recent street protest, they dressed up as animals; in another they staged a "funeral" for a slice of nature that was at risk.

Some eco-protests are masterminded by global NGOs, drawing on a vast pool of experience with manipulating images. Others are dreamed up by local people with few assets other than their own desperation. In the most successful actions, both elements are present. In recent weeks, Greenpeace and its local supporters managed to embarrass the government of Papua New Guinea by climbing a crane to stop a shipment of timber.

But even in places to which global NGOs have little access, the ease with which images and sounds can be disseminated has tilted the balance of power in favour of environmentalists.

Take the fallout from a deal between the Russian aluminium concern Rusal and the government of Guinea to mine bauxite. Green protests were the last thing Rusal expected. But Kamara Secu, a leader of the Guinean community in Russia, was undaunted. He rang Rusal's press officers and taped their response; they were dismissive and mocked his accent. Mr Secu then posted a recording of the exchange on YouTube, the video-sharing site; it was picked up by green bloggers, and helped to rally support for a demonstration against Rusal.

Or consider the recent history of Belovezhskaya Pushcha, a forest park straddling Belarus and Poland. The Belarus side is managed by a well-connected agency whose new boss has been urging his staff to cook up arguments in favour of commercial logging. Heorhi Kazulka, a forestry official who lost his job because he refused to play ball, is waging an online battle to publicise the park's destruction. What began as a lone effort has attracted many supporters who offer tips and photographs.

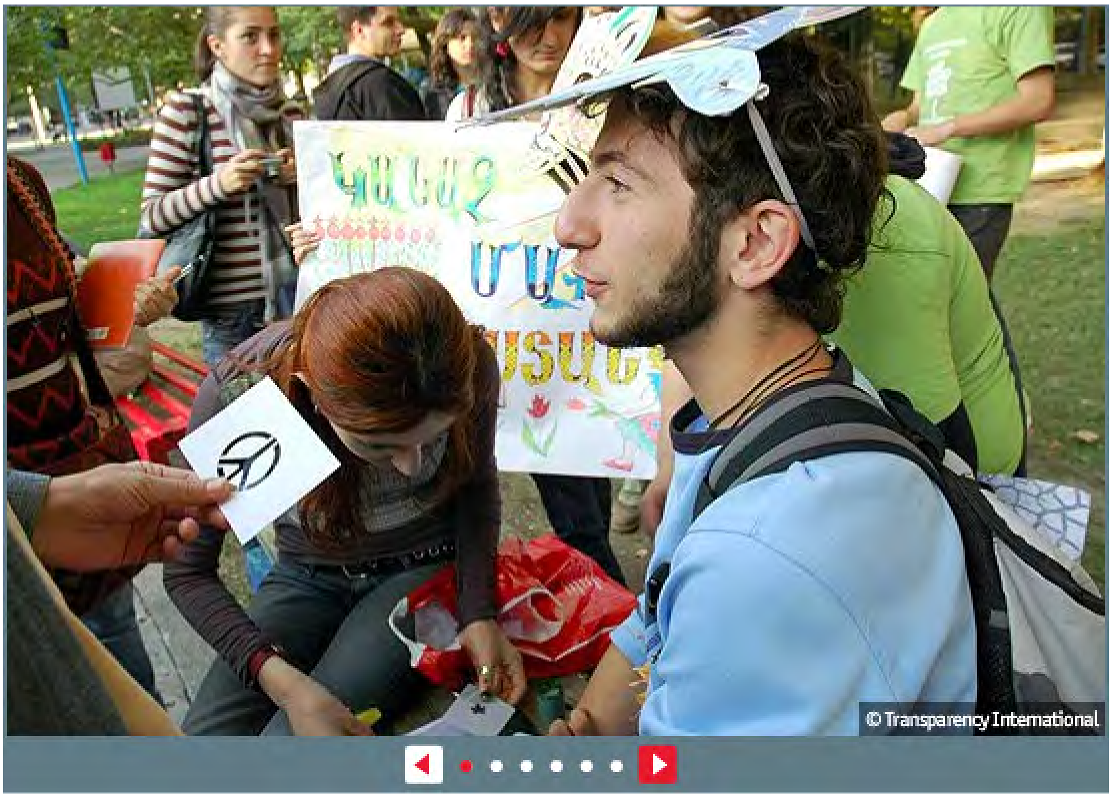
Jon Corbett, of the Centre for Social, Spatial and Economic Justice, an affiliate of the University of British Columbia, was first involved in Indonesia's anti-logging movement in the 1990s, in the pre-internet age. Today, he says, things are far easier: local campaigns against big commercial and political interests at least have a chance, especially if they win global attention.

Blogs play a crucial role in attracting people to marches and sharing information. In Iran, bloggers mounted a campaign to publicise the threat to wetlands from roads and dams. Bulgaria's bloggers campaigned on behalf of the Strandzha Park, the country's largest protected area, targeted by commercial developers; they used a panoply of photo, video, and petition sites. Bloggers in Poland placed special "green ribbons" on their sites to show their solidarity with a campaign to save the beautiful Rospuda valley from new roads.

Open-source video-editing tools and publicly available sounds have made the creation of educational materials virtually cost-free—but that doesn't mean that eco-blogging is safe. Earlier this year an Egyptian blogger, Tamer Mabrouk, posted material indicating that a local firm had been dumping chemicals into Manzallah Lake and the Suez Canal. The photos were noticed by a government newspaper which denounced the firm—and Mr Mabrouk was duly arrested for defamation.

Electronically co-ordinated protest over green issues isn't confined to failed or authoritarian states; it has a role in well-organised democracies, too. In Greece, for example, ten NGOs and a network of local activists dotted across the Aegean are resisting a controversial planning change that would make it easier to build holiday houses on the islands.

George Papandreou, the opposition leader, has denounced the plan as an example of the state's capture by special interests, implying that the only hope of fighting back lies in the mobilisation of ordinary people, determined to save whatever remains of the country's pristine beauty. Athenian newspapers, including pro-opposition ones, have kept an odd silence on the issue, a silence some Greeks ascribe to the power of the construction lobby. Cyberspace, at least, crackles with the controversy.



Innovation in America

A gathering storm?

Nov 20th 2008 | NEW YORK
From The Economist print edition

Confronted by Asia's technological rise and the financial crisis, corporate America is losing its self-confidence. It should not

Illustration by Claudio Munoz

LISTEN to the growing cries of despair coming from some leading business people, and you might imagine that corporate America's competitiveness could be the next victim of the global financial crisis. But Jeffrey Immelt, the boss of GE, the world's largest industrial firm, sees opportunity amid the woe. "Companies and countries that really play offence vis-à-vis technology and innovation are going to come out ahead," he said this week at an event in New York to present GE's coming innovations in health-care technology.

With those words, he touched on a debate that has been heating up for many months. Even before the financial crunch began, many businessmen were worried that America was losing its lead in innovation to India and China. They were particularly upset that Asian rivals had been investing with more gusto in teaching young people mathematics and science, and in advanced scientific research. America's National Academy of Engineering even issued a report last year, "Rising Above the Gathering Storm", arguing that America's "economic and strategic security" was in question because of lack of investment.

The cries are growing louder. The Council on Competitiveness, an influential group of American company bosses, university presidents and labour leaders, issued a terse report on the matter on November 11th and demanded that Barack Obama "take bold action to recapture America's competitiveness" in his first 100 days in office. Craig Barrett, the chairman of Intel, the world's biggest chipmaker, has also made similar complaints of late.

And in a speech in Washington, DC, on November 18th Eric Schmidt, chief executive of Google, an internet giant, claimed that government-funded research done in university laboratories was "the core aspect of America's competitiveness". Without a dramatic increase in investment in such research, and in maths and science education, Americans risked becoming mere "captive consumers" at the mercy of rising Asian powers, he argued.

Venturesome America

So does the relative decline of America as a technology powerhouse really amount to a threat to its prosperity? Nonsense, insists Amar Bhidé of Columbia Business School. In "The Venturesome Economy", a provocative new book, he explains why he thinks this gloomy thesis misunderstands innovation in several fundamental ways.

First, he argues that the obsession with the number of doctorates and technical graduates is misplaced because the "high-level" inventions and ideas such boffins come up with travel easily across national borders. Even if China spends a fortune to train more scientists, it cannot prevent America from capitalising on their inventions with better business models.

That points to his next insight, that the commercialisation, diffusion and use of inventions is of more value to companies and societies than the initial bright spark. America's sophisticated marketing, distribution, sales and customer-service systems have long given it a decisive advantage over rivals, such as Japan in the 1980s, that began to catch up with its technological prowess. For America to retain this sort of edge, then, what the country needs is better MBAs, not more PhDs.

America also has another advantage: the extraordinary willingness of its consumers to try new things. Mr Bhidé insists that such "venturesome consumption" is a vital counterpart to the country's entrepreneurial business culture.

Is he right? The lack of long-term data means this has become "a quasi-theological dispute", says Robert Litan of the Kauffman Foundation, a charity that provided some funding for Mr Bhidé's work. But the contrarian should not be dismissed out of hand. For a start, he is right to argue against making a fetish of invention. Edison did not invent the light bulb and Ford did not think up the motor car, but both came up with the business-model innovations required to profit from those marvels.

And as GE's Mr Immelt likes to say, his firm is not great at invention, but it is outstanding at "turning $50m businesses into billion-dollar businesses". Adam Segal of the Council on Foreign Relations, a think-tank, points out that the sensors that America's soldiers use are no longer secret technology, but they use them in sophisticated ways that rivals cannot copy easily.

There is another reason to take the current "techno-nationalism", as Mr Bhidé calls it, with a grain of salt. Even if China and India really are surging ahead in the number of technical graduates (and research by Vivek Wadhwa of Harvard University casts doubt on the quality of many of those degrees), innovation is not a zero-sum game. On the contrary, there is growing evidence that the rise of the giant emerging economies may even help those companies from the rich world that take a global approach to innovation.

For several years Booz & Company, a management consultancy, has compiled a ranking, called the Global Innovation 1000, of the world's leading firms ranked by investment in research and development. It has shown in the past that spending more on research has no correlation with better financial performance. But this year's study, recently released, found that multinational firms that took a global approach to research outperformed those that concentrated their research spending in their home market.

Why? "Being global and open is now necessary for innovation," says Henry Chesbrough of the University of California, Berkeley. Cost is only one reason (and not usually the main one, Booz argues) to have a global research presence. Another advantage is the ability to tap into pools of talent abroad. But the most important advantage is the ability to listen to, and learn from, customers in new markets.

As well as helping designers come up with products relevant to those markets, it also allows innovation to flow the other way. Indians often share mobile phones, notes Stephen Johnston of Nokia, so the handset-maker developed software to allow multiple phone-books on a single handset; this idea is now being brought to Western markets so that users can, say, separate their home and work contacts. Similarly, GE has developed low-cost medical scanners for Asian markets that are now being sold in other poor countries, too.

Clayton Christensen of Harvard Business School is not fully persuaded by the arguments put forth by Mr Bhidé (who happens to be a former classmate). He thinks Chinese and Indian firms may in time "disrupt" established American companies just as personal computers challenged mainframes, and he worries about America's education system. But he accepts Mr Bhidé's notion that it is more useful to teach technical skills to managers and factory workers than merely to crank out more theoretical scientists.

Most importantly, Mr Christensen agrees with Mr Bhidé that there is no case for protectionism. Some techno-nationalists argue, for instance, that "American innovation" should receive preferential tax treatment or subsidies. Such proposals make little sense given the increasingly global and open nature of innovation. As Mr Chesbrough wryly puts it: "What's good for Intel may not necessarily be good for America."

The car industry

Pass the plate

Nov 20th 2008
From The Economist print edition

If Detroit's carmakers are bailed out, Europe's will be next in line

NOT only in Washington, DC, is there a fierce debate over state aid to the beleaguered car industry. On November 18th, just as the bosses of General Motors (GM), Ford and Chrysler were lining up before the Senate banking committee to ask for help, the directors of the European Investment Bank, the European Union's lending arm, were considering whether to give Europe's carmakers €40 billion ($51 billion) in soft loans. The previous day the German chancellor, Angela Merkel, had met executives of GM's European subsidiary, Opel, to discuss guaranteeing a €1 billion liquidity line in the "worst case" of its American parent going bankrupt.

AP

Please sirs, can we have some more?

Despite the appearance of similarity on both sides of the Atlantic, however, there are big differences. For one thing, the plight of the Detroit Three is much more urgent. GM's boss, Rick Wagoner, told the senators that the economy faced "catastrophic collapse" if bridging loans were not quickly made available. He gave warning that by the year's end GM might not have enough money to pay its bills. Ford's cash position is stronger—company insiders reckon that it might be able to scrape through on its own resources—but its chief executive, Alan Mulally, was not on Capitol Hill just for the ride. He fears that if either Chrysler or GM (particularly GM, since it is so much bigger) were to fail, the impact on the parts suppliers on which all three firms depend could bring down Ford as well.

The Detroit Three can be reasonably confident of getting some help—eventually. Next year a sympathetic President Obama, and big Democratic majorities in both houses of the new Congress, should ensure that. But will that be too late? As *The Economist* went to press there seemed little chance that the Senate would pass a bill to allow the carmakers to get $25 billion of bridging finance from the $700 billion package set up to bail out the financial system. Many Republicans strongly opposed the idea of diverting funds to carmakers.

The condition of Europe's carmakers is hardly healthy, but unlike their Detroit counterparts they are still some way from the critical list. J.D. Power, a market-research firm, forecasts that the western European market will shrink by 7.9% this year, compared with a 16% drop in America. But things are getting grimmer by the day. J.D. Power expects a further 10.5% contraction in Europe in 2009. Renault, which is cutting 6,000 jobs in Europe, thinks the market could shrink by 20%.

As in America, there is disagreement both within the industry and among politicians about whether special aid is needed and, if so, what form it should take. Already, there has been a chorus of dissent over the prospect of Opel being singled out for help. And if aid is provided, what strings should be attached? The European Commission, which has been battling the carmakers over the introduction of tough CO_2-emission rules in 2012, will want to make any aid dependent on assurances that the industry will build more fuel-efficient cars (an echo of a $25 billion package approved by Congress in September, from which

nothing has yet been disbursed).

The German makers, who build the biggest, fastest cars, and are therefore having to spend most to reduce their emissions, are in favour of such a subsidy. But the French and Italians, who specialise in producing economical cars, say they are quite capable of complying with the new rules without any help from the taxpayer—and do not see why the Germans should benefit from their own profligacy. They would prefer Europe-wide “scrapping” incentives to encourage sales of new cars.

Even within the commission, there are differences. “I’d welcome it if everything was done to prevent an important and traditional car producer in Europe from dropping out of the competition for reasons it is not responsible for,” says the industry commissioner, Günter Verheugen. But Neelie Kroes, the competition commissioner, rejects any comparison between the car industry and the financial sector, and has warned member countries against offering their carmakers unfair subsidies.

Much depends on what the Americans decide to do. One option for Europe, assuming the Detroit Three get their money, would be to complain to the World Trade Organisation. But Ford and GM are too important to Europe’s car industry to make that probable. The betting is that Europe’s carmakers will get a helping hand too—even if they do not really need it.

Trouble at easyJet

Uneasy relationship

Nov 20th 2008
From The Economist print edition

A fight breaks out at the low-cost airline

THERE is never a good time to have a full-blown boardroom brawl in public. But for Sir Stelios Haji-Ioannou, a flamboyant serial entrepreneur, to have chosen this moment to go to war with his fellow directors at easyJet, a budget airline, is as puzzling as it is potentially destructive.

The airline industry is reeling from the twin effects of seesawing fuel prices and tumbling demand. Thirty airlines have already succumbed this year and as many again are forecast to disappear in 2009. As Europe's fourth-biggest airline, easyJet, founded by Sir Stelios 13 years ago, will not be one of them. Its strong balance-sheet, modern fleet and low-cost operating model mean it is much better placed than most of its competitors to ride out the storm. But it is still feeling the strain. This week it announced annual pre-tax profits of £123m ($187m), slightly ahead of expectations but still 36% down on the previous year. The last thing easyJet needs is a distracting internal fight over strategy. Yet that is precisely what Sir Stelios seems to want.

Sir Stelios, who controls 38% of easyJet, began his attack on November 13th, arguing that the airline's plans to expand its fleet during the recession should be abandoned. He added that easyJet should consider paying a dividend from 2011, reversing its policy of investing available funds to support the airline's growth. To this end, he invoked rights that were established when the company was floated, by proposing to put two representatives of his holding company, easyGroup, on the board. Sir Stelios hinted that if the chairman, Sir Colin Chandler, refused to acquiesce, he would reassume the chairmanship himself, as he is entitled to do.

This week Sir Stelios went a step further. On the eve of easyJet's publication of its annual accounts, he announced that he was refusing to approve them. PricewaterhouseCoopers, the firm's auditors, had given an unqualified report, but Sir Stelios took issue with the balance-sheet value of £72.4m put on the take-off and landing slots at Gatwick acquired along with GB Airways, a small carrier, early this year. He also expressed doubts about the likely price of seven former GB Airways aircraft that easyJet wants to sell.

Sir Stelios says he is only calling for a more cautious approach. Some observers think that his knowledge of the shipping industry, which is undergoing even greater pain than the airline business, has persuaded him that this is a time to batten down hatches. Others have suggested that he needs the promise of a dividend flow to fund his other interests. There has even been some far-fetched speculation that he may be trying to drive down easyJet's share price in order to retake control of it.

It is possible that the usually genial Greek Cypriot is just very angry. Geoff van Klaveren, an analyst at Exane BNP Paribas, says Sir Stelios has always been concerned that in its quest for ancillary income, which now accounts for 16% of its revenues, easyJet might end up competing with other easyGroup brands. Under a "relationship agreement" struck at the time of its flotation, easyJet's ancillary revenues are capped at 25% of the total. But a visit to the airline's website confirms that it is pushing easyJet Hotels in direct competition with easyHotel, a more recent enterprise launched by Sir Stelios.

Whatever his reasons, they spell trouble for easyJet. The airline's expansion plans for the coming year are modest: capacity is planned to grow by 5% compared with the 15% that is easyJet's norm. Given the desperate state of Alitalia and the difficulties of Iberia, easyJet, which has hubs at Milan Malpensa and Madrid Barajas, is in a strong position to benefit. Mr van Klaveren fears that the ultra-cautious approach Sir Stelios is advocating, combined with talk of dividends, could result in the stock going "ex-growth" and losing the premium it shares with its rival, Ryanair. It is hard to see how that is in anyone's interests.

Business in Asia

You still can't get the staff

Nov 20th 2008 | HONG KONG AND SINGAPORE
From The Economist print edition

Staff shortages persist, despite the slowdown in economic activity

DID the news that factory-output growth in China fell to a seven-year low in October, and reports of job losses across Asia, have a silver lining for managers in the region? Slowing growth ought, after all, to mean that pressure to grow quickly is finally waning, and their biggest headache—finding and retaining staff—should be easing. In China, thousands of factories have closed. Multinationals such as American Express and Motorola have announced lay-offs in India. Thousands of workers have been fired in the Philippines, and millions of Bangladeshi, Indian, Indonesian and Malaysian workers are being sent home from the Middle East, Singapore and Taiwan.

Yet managers say the shortage of staff is still not easing. This is partly because many of these job losses have been in industries such as toymaking, textiles and construction, which use migrant and unskilled workers. There was never any shortage of those to begin with. Another reason is that many troubled companies have chosen not to make staff redundant. Legal hurdles make it much harder to get rid of staff these days, especially in China and India. So some firms have instead cut wages and working hours, or extended holidays. CLSA, a financial-services firm in Hong Kong, recently announced that its top 500 staff would take pay cuts of 15-25%, and several banks in South Korea have also reduced pay. Chartered Semiconductor in Singapore has trimmed pay by up to 20%. Several carmakers in India and South Korea have asked staff to take unpaid leave.

Paradoxically, business leaders report that this has actually raised morale and contributed to another problem. In the past, companies suffered from very high rates of staff turnover—the average tenure of managers in Shanghai was barely 15 months. But economic uncertainty makes workers more inclined to stay put, and firms that want to hire find it harder to entice people to move. “The talent pool has grown—but only for banking staff,” says Greg Miller, managing director of Mersey Manufacturers Timex Group in China.

In many industries demand for workers continues to rise. Most of Asia’s domestic economies are still forecast to expand strongly in 2009. “Far from retrenching, we are redoubling our efforts to grow,” says the boss of one pharmaceutical firm. Companies in the region also expect a further boom in outsourcing from America and Europe as companies there try to cut costs. NASSCOM, a body which represents India’s software and computer-services firms, predicts that 200,000 additional jobs will be created next year.

This means that skilled workers’ wages are still going up. Heather Payne, head of the Asian division of Research International, a market-research firm, says she expects wage hikes of 14% in India and 9% in China next year, only marginally less than in 2008. There is “simply not enough talent to feed the growth”, she says. When any skilled workers are laid off they are instantly snapped up by other firms. Finding good managers who can work internationally is still especially hard. There is also an acute shortage of finance, research-and-development and engineering skills.

Managers of many multinational businesses in the region have another problem. Like their local competitors, they hope to increase regional sales in the next few years on the back of economic growth. But they have the additional pressure of having to expand even faster than local rivals, as they are told to compensate for sales declines in America and Europe. Worse, many are also being told to cut costs, in line with globally prescribed cutbacks. They must cope with rising wages for skilled workers, a shortage of suitable staff and pricing pressure from local competitors. “Next year will be especially hard,” says one regional boss. Except, presumably, for his skilled staff.

Mobile phones

The battle for the smart-phone's soul

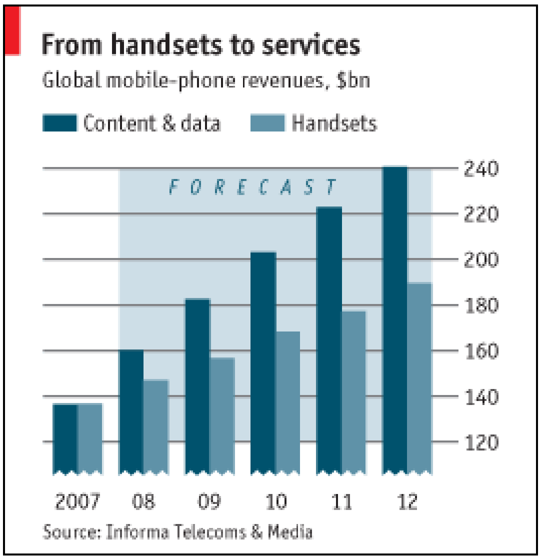
Nov 20th 2008
From The Economist print edition

Competition heats up to provide the software that powers mobile phones

BRACE yourself for disappointment: there may not be a flashy new mobile phone waiting for you under the Christmas tree. On November 14th Nokia, the world's largest maker of such devices, announced that it expects the industry to sell no more than 330m of them in the fourth quarter—about 6m fewer than in the same period last year and 20m fewer than it predicted just a few months ago. Worse, Nokia expects sales in 2009 to drop below this year's level. This would make it only the second year ever in which the global handset market has contracted.

Yet not all is doom and gloom in the mobile-phone industry. On the contrary, it is going through two important shifts that promise to generate much growth and profit in the years to come. First, even though overall sales may fall in 2009, sales of "smart" phones—those that allow you to surf the internet, download music and use other data services, as well as make calls and send text messages—are booming. According to Informa, a market-research firm, the market for smart-phones will grow from $39 billion in 2007 to $95 billion in 2013, by which time they will make up nearly half of the handset market by value (though only 34% by volume).

Second, and more important, as handsets get smarter the nature of the industry will change. It will be less about hardware and more about software, services and content. In fact, for the first time, more will be spent this year on such intangibles than on the handsets themselves (see chart). And this is why, also for the first time, a fierce battle between operating systems for handsets has broken out.



Mobile phones had operating systems before, of course. Just like personal computers (PCs), they always needed such software to enable the hardware to function and to allow add-on programs to run. But most mobile operating-systems were proprietary, meaning that handset-makers had developed them specifically for their own devices. Only at the top of the handset market was there any rivalry between operating systems, with a struggle mainly between Research in Motion (RIM) with its BlackBerry; Symbian, controlled by Nokia; and Windows Mobile, a cut-down version of Microsoft's operating system for PCs.

This set-up was fine as long as mobile phones were relatively dumb, wireless-data connections were slow and users were happy just to make calls and send text messages. But in recent years it became the main impediment to the take-off of the mobile internet. On their own, handset-makers did not all have the necessary resources, expertise and culture to develop top-notch operating systems with intuitive user interfaces. Add-ons such as games had to be laboriously tweaked to run on multiple platforms, which often existed in multiple versions.

All this amounted to a tax on mobile phones: on average, 20% of the cost of a handset goes on software. It did not help that mobile operators, keen to keep control of their customers, decided which applications would run on a handset and which services it could access. They also confused customers with complicated pricing schemes for wireless data.

It has taken two outsiders to shake things up. One is Apple, with its iPhone. As well as being a paragon of hardware and user-interface design, it comes with a flat-rate "all you can eat" data plan. Apple also provided powerful tools to develop software for the iPhone, and a novel way to distribute them: the App Store. As with a PC, users are free to download applications and install them on their iPhones. Launched in July, the App Store has taken off even more quickly than iTunes, Apple's industry-leading online-music

store. In the first two months, iPhone users downloaded more than 100m programs.

The other disrupter is Google, with its Android platform. It also lets users download applications from an online store, called Android Market. But it differs from the iPhone in that Android is just software, which Google makes available to handset-makers and operators. The first operator to adopt it was T-Mobile, for its G1 phone, launched in September. What is more, Android is “open source”, meaning that its underlying recipe is freely available and can be easily changed and understood. This, Google hopes, will speed up adoption and allow more innovation than the iPhone platform, which Apple controls tightly.

The appearance of these two newcomers has led the industry’s incumbents to redouble their own platform efforts. One scheme, called LiMo, is run by an eponymous foundation with a membership comprising more than 50 handset-makers, mobile operators and other industry bodies, all of which share intellectual property. Just like Android, the software is based on Linux, an open-source operating system (“LiMo” stands for Linux Mobile). But in contrast to Google, the LiMo foundation intends to offer only the basic elements of a platform, leaving its members room to differentiate themselves, for instance by developing their own user interfaces.

And then there is Symbian, which has been around for a decade. In June Nokia announced a deal which seems counterintuitive, to say the least. It paid €264m ($411m) to buy out the other shareholders in Symbian and transfer its software to a non-profit foundation that will continue to develop and distribute it, on an open-source basis. But by doing so Nokia kills two birds with one stone. The acquisition means it no longer has to pay licence fees to use Symbian, and open-sourcing it makes the platform more attractive to programmers and other handset-makers.

Let battle commence

How will this conflict play out? There are actually several front-lines. One is between the open-source platforms and their proprietary rivals, in particular the iPhone and BlackBerry platforms. Although the majority of smart-phones will ultimately be powered by open-source software, the proprietary platforms are here to stay, predicts Geoff Blaber of CCS Insight, a market-research firm. Many users, he says, value their tight integration of hardware and software, which makes for a more seamless package. Only Microsoft has a real problem: it does not make handsets itself, so it cannot exploit such integration, and handset-makers that do not wish to develop their own software now have a choice of free alternatives to Windows Mobile.

Then there is the fight between the three open-source platforms. All have their strengths and weaknesses. Symbian is proven technology that powers some 159 phone models, but has limited momentum among independent software firms. With Android, it is the other way around: the software powers only one handset model so far, but its online marketplace already boasts a few hundred programs. LiMo is behind in both, but has the merit of not being controlled by one big firm.

In 2009 each platform will be trying to win the hearts and minds of software developers, says Roberta Cozza of Gartner, another market-research firm. But even if one comes out ahead, it is unlikely that the market will consolidate soon. Strong economic interests are keeping each platform alive. Google wants to get its services and advertising on mobile phones. Nokia is also betting on services as a source of growth. And handset-makers and operators will probably continue to support LiMo, if only because they do not want to depend on Google or Nokia.

The best outcome, indeed, is a continuing battle. If the market for mobile-phone platforms were to consolidate quickly or go down the same route as PC operating systems, which wound up being dominated by Microsoft Windows, the result would probably be less innovation. And it is by innovating rapidly that the mobile-phone industry, and any other for that matter, has the best chance of weathering the oncoming recession.

NTT DoCoMo

International roaming

Nov 20th 2008 | TOKYO
From The Economist print edition

Japan's biggest mobile operator heads abroad once more

HERE we go again. When NTT DoCoMo, Japan's dominant mobile operator, last ventured abroad, the results were painful. Between 1999 and 2001 it spent almost ¥2.2 trillion (about $20 billion) buying minority stakes in a handful of mobile operators around the world. But it ended up booking a loss of half the value of these investments in 2002 and scuttled home. In the past couple of years, however, DoCoMo has been buying stakes in foreign operators once again, with investments in South Korea, the Philippines, Malaysia and Bangladesh. Its latest move: India.

AFP

I'm going shopping in India

On November 12th DoCoMo said it would pay $2.7 billion for a 26% stake in Tata Teleservices, the mobile-telecoms arm of the Tata Group, one of India's biggest conglomerates. The price, valuing the privately held Indian business at $10.4 billion, is steep: the operator is India's sixth-largest, with barely 30m customers in a crowded market that boasts more than 300m. The company is believed to be unprofitable and is about to begin a costly network upgrade.

But DoCoMo, like other foreign operators piling into India, is attracted by the country's potential. India is the world's fastest-growing mobile market, adding almost 10m new subscribers each month, and is the second-largest, after China. Moreover, only a quarter of the population has mobile phones, so there is lots of room to grow. Last year Vodafone paid $11 billion to take over Hutchison Essar, and Telenor of Norway paid $1 billion for 60% of Unitech Wireless, another Indian operator, in October.

Staying at home is unappealing to DoCoMo: most adults already own a mobile phone, and growth is stagnant. Like many Japanese firms sitting on big cash reserves, DoCoMo finds the idea of foreign acquisitions attractive because the yen is strong and foreign share prices are low. So far this year Japanese firms have spent over $71 billion abroad, a record sum, at a time when merger-and-acquisition deals have declined globally.

But more than opportunism is at play, the firm insists. DoCoMo says it will make money from dividends, international roaming and technology licensing. It thinks its knowledge of advanced mobile networks will prove useful in developing countries in Asia, where such networks are just about to be introduced.

Can lessons from Japan really be applied in India? In Japan, DoCoMo is the market leader and handset-makers and partners must dance to its tune. Fancy data services are popular and the average revenue per user (ARPU) exceeds $50 a month. India's market is far more competitive, services are basic and ARPU is below $5. So opinion is divided as to whether DoCoMo's new foreign foray will be more successful than its last one.

Face value

Listen to the music

Nov 20th 2008
From The Economist print edition

Can Judy McGrath keep MTV Networks up with the beat of the internet era?

mtv networks

JUDY MCGRATH believes that “change has to be in everyone’s DNA, personally and professionally.” As the chief executive of MTV Networks, a division of Viacom, an American media group, she was still sad to see one of MTV’s longest-running programmes, “Total Request Live”, come to an end this week. The ten-year-old television show, which played music videos, was an MTV staple. But in recent years the show began to seem outdated, given that viewers could easily find the same videos online. On November 16th Ms McGrath joined celebrities and MTV staff at the firm’s Times Square studio for the show’s nostalgic finale—a three-hour long tribute, in effect, to MTV’s old way of doing things. Ms McGrath’s job is to make sure that MTV continues to find new ways of doing things.

The company where she has spent her career is no stranger to change. MTV Networks oversees 150 television channels, including MTV, Comedy Central and Nickelodeon, and 390 websites. The firm began in 1981 as a channel that screened music videos and has since evolved into one of America’s most powerful media companies. It has emerged as the standard-bearer for popular culture. It continues to show music videos, but these days MTV Networks also offers comedy, reality television, children’s programmes, cartoons, online virtual worlds and video games.

Ms McGrath grew up in Scranton, Pennsylvania, in a family that loved jazz, and she aspired to write about music for *Rolling Stone* magazine. After graduating from college she moved to New York in 1978 and got a job at *Mademoiselle*, a now-defunct women’s magazine. She started off typing recipes, even though she couldn’t cook. After making a mistake in one of the recipes and receiving complaints from bewildered readers, she switched to writing about fashion and parties.

Her experience working for women’s magazines brought her closer to music, but never to *Rolling Stone*. Via several female colleagues at Condé Nast, to whom she refers as the “old girl network”, she heard about a small, innovative start-up that had just launched, called MTV. At the time it consisted of a single cable channel available only in New Jersey. Ms McGrath knew nothing about television, but she found the concept “artful and fascinating, and it was also irresistible”. Bob Pittman, MTV’s founder, was impressed by her creativity and sensed her “capacity to create and let it go”, he says, which he thought would be essential to keep the company innovative and fresh. He hired her as a copywriter, and she began her ascent through the ranks of the company. During her “long, slow crawl to the top”, as she puts it, Ms McGrath focused on attracting talent and helping to select creative programming. Having come of age in the 1970s, she also urged MTV to take on more social campaigns, such as “Choose or Lose”, which encouraged young people to vote.

Since becoming chief executive in 2004, Ms McGrath has pushed the company to grow in new ways. She has focused on international expansion, raising the number of countries that receive MTV's television programming to 162. (Programmes are broadcast in 33 languages.) She has also tried to diversify MTV's sources of revenue. Under her leadership, the company has paid more attention to designing and selling consumer products, such as toys and clothing, which tie into its shows. And she recognised the growth potential of video games. In 2006 MTV Networks bought Harmonix, a maker of such games; the partnership yielded "Rock Band", a hit to the tune of 7m copies. Another acquisition, of Atom Entertainment, brought AddictingGames.com, a "casual gaming" website, under MTV Networks' umbrella.

MTV knows its mainly young audience well, but it is also battling to keep their attention. The people to whom MTV has always appealed are the same people who now spend their time on MySpace and Facebook and watch free video-clips on YouTube. Ms McGrath describes MTV Networks' main audience as the "on-demand generation"—young people who are used to getting the content they want, whenever they want it. In the past few years MTV Networks has had to compete with the internet's copious offerings in order to keep viewers loyal and retain advertisers. The company has expanded its digital offerings considerably over the years, but will MTV be able to change quickly enough to fit its customers' tastes and online habits?

The long and winding road

Ms McGrath knows that she needs to wage a war on two fronts: one for viewers, another for advertisers. On the advertising front, she admits that "a big part of our future is working differently with advertisers and distributors and maximising interesting ways to involve them." This may mean being more flexible when it comes to control over content on the web. In 2007 MTV's parent company, Viacom, sued Google (the owner of YouTube) for $1 billion for copyright infringement, complaining that it was profiting from Viacom's content, uploaded by YouTube users. Yet this month MTV Networks struck an innovative deal with MySpace, which also allows its users to upload video clips. Technology provided by Auditude will identify clips on MySpace belonging to MTV Networks and overlay advertising on them; MySpace and MTV will split the resulting revenue. This may signal that MTV is becoming more creative in its dealings with its online rivals.

"I think the major strategy is that you have to be open and flexible, and probably change it every day," says Ms McGrath. Now she must decide how much change to pursue in the future. She plans to expand more into digital content, seek further international growth and continue to develop new products. Next year MTV Networks will release a new "Rock Band"-style game, featuring music by the Beatles. This shows that MTV is not about to abandon its roots—the promotion of music through new media. But as the cancellation of "Total Request Live" demonstrates, Ms McGrath is not afraid to ring the changes.

Managing in the downturn

Desperately seeking a cash cure

Nov 20th 2008
From The Economist print edition

Many firms urgently need more cash to boost their liquidity and to help ward off the economic ills

Illustration by Gary Neill

AT FIRST glance Citigroup, a giant of American banking, and Wolseley, a British firm that makes building products, have little in common. The former is part of the plumbing of the global financial system; the latter is the world's biggest distributor of pipes, bathroom fittings and other plumbing paraphernalia. Yet both have found themselves on the rapidly growing list of victims of the global economic turmoil. Citigroup has been hammered by the fallout from the subprime-mortgage debacle and its repercussions in financial markets. But as the chaos spills into the real economy, firms in many different industries are being infected by it. Hence Wolseley has seen demand for its products dry up as the number of new homes being built has plummeted.

Now they have something else in common: this week both announced a further round of mass lay-offs. On November 17th Vikram Pandit, Citi's boss, said his bank would shed a whopping 52,000 jobs in the next few months, bringing the total number of planned job cuts to 75,000, or 20% of the bank's workforce (see article). On November 18th Chip Hornsby, Wolseley's boss, announced another 2,300 job cuts at his firm. Once these employees have departed, his company will have cut 14,500 jobs, or roughly 18% of its total.

With Messrs Pandit and Hornsby, bosses at many other firms have been cutting hundreds of thousands of jobs. Apart from carmakers and other manufacturers, the list of those laying people off now includes Pepsi bottlers, law firms, retailers, media companies, chemicals producers and even technology firms. All are desperately seeking a cure. And the most attractive medicine on offer looks like cash.

Hoarding for hard times

Preserving cash in such formidable times will present managers with an unprecedented test of their skills. "We've come through a half-century of history where recessions have been sort of mild," notes Richard Sylla, a professor at New York University's Stern School of Business. "But never have problems in the financial sector been as great as they are now."

Faced with huge difficulties of their own, banks have tightened their purse strings, lending less and driving up the cost of credit to consumers and corporations. That is compounding an already grim prognosis for the world economy. This week Japan said its economy had shrunk for the second quarter running. Much of Europe is in a similar state. And a new survey by the Federal Reserve Bank of Philadelphia has shown that many economists believe the United States went into recession in April and will not emerge from it until the middle of 2009.

Opinions differ as to how long and deep the global slowdown might be. But the combination of a battered banking system and shell-shocked consumers mired in debt suggests it could be particularly hard for many businesses, whatever the duration. So bosses are rushing to secure as much cash as they can now to see their companies through the downturn.

How times change. Not long ago companies with cash piles were assailed by corporate activists to return money to shareholders. Nowadays it is only a slight exaggeration to say that the more cash that investors see in a firm's coffers, the happier they are. A recent report from Citigroup's investment bank shows that since the credit crisis began the returns of firms with ample liquidity have outperformed those of their cash-strapped industry peers by almost 7%. Before the crunch, cash-rich firms were generally underperforming.

There is a big risk that some behemoths will run out of money. Moody's, a credit-rating agency, says its liquidity-stress index, which tracks the cash position of heavily indebted American firms, shows they are feeling as pinched as at any time since late 2002. Among those most at risk are some casinos and carmakers. Harrah's Entertainment, a Las Vegas-based casino, is trying to persuade creditors to renegotiate its payment terms to avoid a default. General Motors (GM), along with Ford and Chrysler, is lobbying Congress for a bail-out after burning through billions of dollars in the third quarter of the year.

Few companies are in as bad shape as the three American carmakers. Yet that is no excuse for complacency. Faced with such difficult markets, firms in many industries are likely to see sales fall, bad debts soar and cash flows deteriorate sharply—if they have not done so already. Although every company's situation is unique, there are some common themes that managers would do well to bear in mind when tackling the current crisis.

Don't bet on the bank

One thing not to take for granted, even for firms with strong balance-sheets, is that they will get access to external capital. For the foreseeable future, bank credit is likely to be harder to come by and will certainly be more expensive than when the financial crisis began. Strong companies may be able to issue corporate debt at a more reasonable price, but that market remains fragile. Although government action has unblocked the commercial-paper market, an important source of short-term funding, the cost of tapping it remains very high for all but the healthiest of issuers.

Faced with all this, some companies such as Marriott International, an American hotel group, have drawn down bank credit lines, even though they did not need the money urgently. Many of these so-called "revolving credit facilities" were set up during the boom, when credit was cheap. A recent paper by two Harvard Business School economists, David Scharfstein and Victoria Ivashina, shows that between April 2006 and April 2008, such credit lines grew by 36%, to $3.5 trillion.

Illustration by Gary Neill

However, some analysts argue that tapping relatively cheap bank credit is not wise unless firms really need the money. They argue that rating agencies and investors are likely to see this as a black mark against managers who have increased leverage for no good reason. But in such uncertain times, that may be a small price to pay for securing a cushion of cash.

A few companies have tapped new pools of capital, like sovereign-wealth funds, to bolster their finances. In July GE, an American conglomerate, set up an $8 billion, 50-50 joint venture with Mubadala, an investment arm of Abu Dhabi, to invest in areas such as clean energy and aviation. Mubadala is expected to become one of GE's ten largest shareholders.

A third way to raise cash is to sell businesses no longer central to a firm's strategy. Although prices for corporate assets have been depressed by the downturn, this has not deterred some companies from putting them up for auction. This week, for instance, GM and Ford sold shares in Suzuki and Mazda respectively. By selling their stakes back to the Japanese firms, the American carmakers raised a total of $770m of badly needed liquidity.

Managers can also boost liquidity by letting less cash go out of the door. Several big companies including Alcoa, an American aluminium giant, Target, an American discount retailer, and AkzoNobel, a Dutch firm that makes paint and specialty chemicals, have recently cancelled plans to buy back shares using what was previously viewed as excess cash. Companies are starting to trim dividends too, though this will be unpopular with investors expecting a regular stream of income.

Stretching out the payments on bank debt can also preserve cash. And firms should look out for opportunities to refinance existing loans early to give themselves greater financial flexibility. Sprint Nextel, a troubled American telecoms company, recently replaced a $6 billion revolving credit facility with a $4.5 billion loan agreement due in 2010. The terms allow Sprint to have a higher ratio of debt relative to its profits, making it less likely that it will breach covenants associated with its debt. That gives Sprint, which has been losing subscribers, a slightly better chance of surviving the downturn.

A particularly tough challenge is to generate even more cash from existing operations. The Hackett Group, a consulting firm that specialises in this area, reckons that a typical multinational with revenues of about $23 billion can save up to $400m a year by taking a hard look at how it runs areas such as finance, human resources and technology. For example, in a recent study the consultants point out that many first-generation outsourcing efforts have shifted only parts of a process offshore. Firms should review these to see if they can "lift and shift" the whole to cheaper places.

The daily grind

Another area that needs to be put under the microscope is working capital, or the cash that gets tied up in day-to-day operations. "The first place to look for this money is in a firm's inventory," says Wayne Mincey, Hackett's chief operating officer. All too often, poor sales forecasting and production planning mean that a lot of cash ends up trapped in a company's warehouses in the form of unwanted products. Hackett reckons that the same $23 billion company could save as much as $1 billion a year by improving the lines of communication between executives responsible for sales, procurement and production.

At the same time, managers need to avoid swinging to the opposite extreme. Faced with a more difficult economic environment, retailers in particular have been thinning out inventories to free up cash. But if their sales forecasting is not on the button, companies risk annoying consumers who cannot get hold of their products because they are out of stock.

Illustration by Gary Neill

In a downturn, some firms might be tempted to squeeze suppliers. But they should think twice. Many sophisticated supply chains now stretch across continents and rely on just-in-time delivery. The slightest glitch can cause chaos. To make matters worse, many suppliers have also been hit by the credit crunch and are in need of more cash themselves. According to a recent report in the *Financial Times*, some companies such as Daimler, a big German carmaker, are so concerned about the financial health of vital suppliers that they are bending over backwards to help.

The problem with working-capital initiatives is they can take a long

time to pay off. Yet many managers are under pressure to turn their firms' fortunes round fast. Hence the predilection for swift and sizeable lay-offs. Announcing earlier this month that Sun Microsystems would cut 5,000-6,000 jobs, Jonathan Schwarz, its chief executive, said he was taking "decisive actions" to align the company's business with new economic realities.

As well as pruning workforces, many manufacturing, metals and mining companies are idling some factories and mothballing others. Capital expenditure is also being axed. After its third-quarter profit fell by more than half, Alcoa cancelled all its "non-essential" capital projects. Severstal, Russia's biggest steelmaker, has canned most of an $8 billion investment plan.

Large companies are not the only ones with a laser-like focus on cash. Small start-ups are also watching every penny more closely than ever. Many of their fresh-faced founders can barely remember the downturn triggered by the dotcom bust in the early part of the decade. Yet at the urging of venture capitalists with somewhat longer memories and plenty of cash at risk, firms across California's Silicon Valley and beyond have been making big cuts in their relatively small budgets. The goal is to reduce their "burn rates", or the speed at which they are getting through their backers' money.

So is all this hyperactivity encouraging? The answer is a qualified yes. Firms that remain standing through a brutal recession will be those that have taken the phrase "cash is king" to heart. Yet there is a risk that in a rush to build up their cash mountains, cuts could be made too fast and too deep when a more targeted approach to surgery is needed. For instance, a recent article in the *McKinsey Quarterly* points out that technology budgets are a favourite place to make cuts, but indiscriminate chopping will be more damaging than ever before because IT systems are now so tightly interwoven with everything from supply chain management to the determination of pricing strategies.

Another reason for caution is that firms on a cash crusade can all too easily choke off investment in promising new products. That would be a huge mistake because, paradoxically, a recession can be a fantastic time to launch innovations. For one thing, tougher times can make consumers reconsider many of their purchasing decisions, leaving them open to trying something new. For another, a less crowded marketplace makes it easier—and cheaper—to create awareness of a new offering.

Scott Anthony of Innosight, a consulting firm, points out that during the dotcom bust Apple launched its first version of the iPod music player and that in America alone more than ten other "disruptive" innovations started during the same period. Experienced senior executives are convinced that this downturn will produce a new crop of world-beating businesses. In a recent speech to the Council on Foreign Relations, a think-tank, Sam Palmisano, the boss of IBM, said he was certain that he would see new leaders emerging who would "win not by surviving the storm, but by changing the game".

Firms who want to be winners coming out of the downturn will also need the financial resources to seize any opportunities that arise during it. Interviewed in the *Harvard Business Review*, John Chambers, the boss of Cisco Systems, a network equipment-maker, said the firm tended to make more aggressive investments during bad times than good ones. When its rivals pulled back from Asia during the region's financial crisis in 1997, Cisco deliberately increased its presence there, gaining a leading position it has never relinquished. Cisco's experience is a timely reminder that while having plenty of cash is a powerful remedy in surviving a recession, if it is also deployed wisely it can produce a champion when the downturn ends.

Audits

Accounting for concern

Nov 20th 2008
From The Economist print edition

Can auditors be sure a firm will survive the next 12 months?

A FEW months before XL Leisure Group, Britain's third-largest tour operator, filed for bankruptcy in September, leaving thousands of holidaymakers stranded, it issued a set of accounts, signed off by its auditors, that gave no hint it was about to go bust. Such experiences haunt auditors as they grapple with year-end accounts in the cruellest economic climate most have ever experienced. "Companies and their auditors have got to get used to the idea that nothing is as it used to be," comments Will Rainey, a partner at Ernst & Young, one of the big-four accounting firms.

The problem is that year-end accounts are prepared on the basis that a business is a "going concern", ie, that it will operate for the foreseeable future, or at least 12 months after the reporting period. That judgment is made by the board of directors, and auditors have to agree with it.

The difficulty they face is that most companies fund their operations in part through borrowing, which can stretch from simple overdrafts to huge syndicated loans. Each year, auditors will often seek letters from their clients' bankers reassuring them that they will renew lending facilities in the ordinary course of business. But this year many banks may well refuse to write those letters because they do not want to commit to new lending. It will lead to some difficult judgment calls on the availability of funding next year, Mr Rainey says.

According to international standards, directors and auditors usually have three options with accounts: they can prepare them on a going-concern basis, which is standard but might expose them to charges of negligence if they are wrong; if they do not believe the business is a going concern, they must prepare the accounts on a break-up basis; or they can express some doubts about the company's future, but still prepare the accounts on the going-concern basis. (Britain's Financial Reporting Council has suggested a fourth alternative, that would express "serious doubt" about the ability of the company to continue as a going concern. But auditors say this may add to confusion.)

The temptation this year will be to express some doubts about funding uncertainties, but auditors realise that if they do that too widely, the caveat will become meaningless. Steve Priddy, of the Association of Chartered Certified Accountants, says that the onus will be on directors to be frank about any worries, even when they consider the firm a going concern. But if banks do not want their most creditworthy clients to suffer, they should be a bit bolder, too. After all, many now have the explicit backing of their governments. So they can afford to be a bit more public-spirited in these peculiar times.

Economist.com FINANCE & ECONOMICS

Compensation in finance

Payback

Nov 20th 2008
From The Economist print edition

Bankers' pay is a complex subject that arouses simple emotions

Illustration by S. Kambayashi

"THE villagers are at the gates of the castle with burning torches," says one compensation consultant. The sheer amount that bankers are paid riles people at the best of times. When the economy is ravaged and the source of the trouble is banks themselves, the pitchforks come out. Politicians on both sides of the Atlantic are gleefully grilling bankers on pay. New York state's attorney-general has reportedly issued a subpoena to Bank of America demanding data on its most well-rewarded employees. A penitent Peter Wuffli, ousted as UBS's chief executive in July 2007, has returned SFr12m ($10m) in bonus entitlements to the Swiss bank.

Bankers are desperately trying to placate their critics. On November 16th Goldman Sachs, which kicks off the bonus round when it reports its full-year results next month, announced that its top executives would forgo their bonuses this year. Executives at Barclays, Deutsche Bank and UBS have done the same, even though the first two have avoided government injections of capital. Others will follow.

Reining in the pay of senior management is arguably the easiest problem for banks to solve, however. The real headache, politically and commercially, is how to compensate people below the management suite. These employees absorb the bulk of the bonus pool. Goldman's top brass may go without this year's payout, but the bank had still reserved $11.4 billion in the first nine months of its fiscal year for total compensation.

Never mind that this number was roughly one-third down on last year's equivalent totals, and that headhunters expect most banks' bonus pools to shrink by around 50%. Never mind that these employees have little control over the overall direction of the bank, or that the people who took the most calamitous bets in areas like subprime mortgages cleared their desks last year. Nor that bankers' base salaries are low relative to other professions and that they have suffered heavy losses by holding shares in their employers. Paying out billions in bonuses will still look awful. Worse, many expect the ratio of compensation to income, which normally hovers just below 50%, to balloon in 2008 as banks' revenues fall faster than their pay bills. Banks may also end up giving out more cash than expected: so far have share prices fallen that firms will have to issue many more shares this year to reward people with equity, risking yet more dilution of bruised investors.

Not unreasonably, some ask why bankers should get a bonus at all after a rotten year like this. In truth, many will not. The distribution of bonuses will be skewed towards top performers, leaving little or no money for those in the lower quartiles. That will be difficult for the banks to communicate, says Vicki

Elliott of Mercer, a consultancy. In normal times, missing out on a bonus serves as code for “brush up your cv”. But that will not necessarily be the case this year.

Bonuses will also be unevenly distributed between different parts of the banks (see chart). Lots of divisions are still delivering decent results. Bankers in high-volume, low-risk “flow businesses”, such as foreign-exchange trading, are reporting record demand, for example. Others, such as prime brokerage, may have fallen away steeply in the past two months but brought in plenty in the early part of the year.

Surely things are so bad that banks could still afford to disappoint even their better employees by screwing down on their pay? Banks everywhere are ditching staff, after all. On November 17th Citigroup said it planned to shed 52,000 jobs (see article). This is not the time for bankers, however disgruntled, to jump ship. Plenty in the industry disagree. There is still competition for the best people, they say, and it is easier for them to move now that the value of their stock options has fallen.

There are other considerations too. With such uncertainty about the future shape of the industry, bankers are nervous about cutting back too hard in areas that could yet rebound, says Dee Symons of Russell Reynolds, an executive-search firm. There are simple governance issues as well: failing to pay people if they reach agreed benchmarks is wrong in principle. So too are attempts to claw back bonuses, however undeserved, from those former executives whose decisions landed the industry in such trouble. UBS is assessing legal grounds for retrieving chunks of past awards. That may seem just, but comes at the huge potential cost of weakening employers’ contractual obligations.

Better by far to draw up more sensible pay schemes in the first place, which UBS has now started to do. On November 17th it unveiled its new thinking on compensation, which is designed to tie awards for senior managers more closely to sustained performance. From next year, cash payouts will be limited to a third of an executive’s entitlement in any one year; the rest will be rolled into an outstanding balance. That balance can go up or down depending on performance in the following year. It is a similar story with regard to equity awards: initial share grants will now vest only after three years and the running total will rise or fall depending on performance. How that performance is measured will also change, to reflect risk-adjusted profits as well as the bank’s relative total shareholder return.

There is much to like in the new plan. The notion of a “malus”, or a negative bonus, when performance dips may make classicists groan but is surely fair in principle. Attempts to measure risk more rigorously are also welcome. But there are plenty of caveats. Applying these measures to people below the executive level poses practical difficulties. Tracking the performance of traders who take on thousands of positions, some of them hedges, is no small task. Measuring risk, as so vividly demonstrated during this crisis by UBS itself, is art not science; people may still win payouts and end up causing losses.

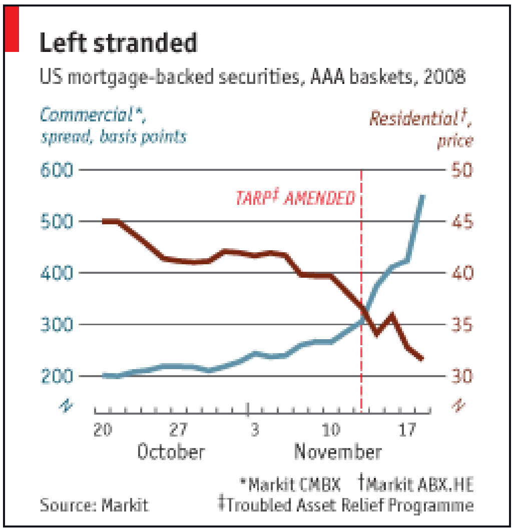
And whatever measures banks take to alter the structure of their compensation plans, critics will still be inflamed by the level of pay in the industry. UBS is already under fire from some for saying nothing about salary caps in its new report. Mob justice may have deserving targets but it is always crude and usually goes too far. Attacks on bankers’ pay are no different.

Markets

The TARP trap

Nov 20th 2008 | NEW YORK
From The Economist print edition

The painful consequences of abandoning asset auctions



DISTRESSED markets tend not to react well to offers of salvation being abruptly withdrawn. Holders of toxic mortgage-backed securities had pinned their hopes on the American government's plan to buy large piles of the stuff through auctions as part of the Troubled Asset Relief Programme (TARP). The decision on November 12th to abandon that approach in favour of direct capital injections has left them shattered. The ABX index, which is linked to residential mortgages, is plumbing new depths. Spreads on the CMBX index, which is tied to securities backed by loans for offices, shopping malls and so on, have been exploding (see chart).

The renewed credit concerns sent shockwaves through world stockmarkets. The Dow Jones Industrial Average fell below 8,000 on November 19th, its lowest level in five and a half years. Bank shares were particularly hard hit amid concerns that falling asset prices would lead to more write-downs; those of Citigroup fell by 23% in a day. There were also rampant fears of deflation, as American consumer prices fell by 1% in October, the biggest monthly fall since at least 1947. Yields on two-year Treasury notes slipped close to 1%.

One of the newest sources of worry is the market for commercial property, which had held up until recently but is now crumbling. Charge-offs by large American banks have leapt 11-fold. Commercial-property prices, which have fallen by 10%, have another 25% to go if they are to return to their long-term trend. Technical factors are also at work: banks are dragging down the CMBX further by shorting it, using credit derivatives, to hedge risks in their loan books.

The slump carries echoes of the subprime bust. The worst office loans are souring within months of being made. Underwriting grew sloppy: more cases are coming to light of lenders signing off on outlandish assumptions about rental income, says David Watts of CreditSights.

Because banks use mortgage-securities indices as an important input when valuing their holdings, the latest spiral presages further write-downs. That would eat into the capital they are getting through the new-look TARP—"like Groundhog Day," moans one trader. Another rethink may be in order.

Bank bail-outs

Quids pro quo

Nov 20th 2008
From The Economist print edition

How much influence will governments have over banks?

AS WELL as capitalism's future, a recent congressional hearing on American International Group's bail-out debated an invoice for $1,488 from the salon at the St Regis resort, California. The insurance firm had hosted an executive jolly there. “They were getting their manicures, their facials, their pedicures and their massages,” spat one congressmen, “while the American people were footing the bill.”

Microscopic scrutiny is a cost of having the taxpayer as a shareholder. Not that this has put off banks and insurers from queuing to receive capital injections (see chart). Governments are likely to end up as the largest shareholders in developed countries' financial systems, with $500 billion or more invested, or roughly a quarter of the industry's market value.

Financial firms are getting preferential treatment because they form the plumbing of the economy, extending vital credit to households and companies. But even emergency help does not come free. Executive pay has been capped, partly to avoid upsetting hard-hit voters. Most European schemes stipulate that lending to healthy businesses must be maintained (France has even set broad numerical targets), and limit or eliminate dividends that would deplete the banks' capital. In America an unexpected joint statement made by banking regulators on November 12th warned lenders to “fulfil their fundamental role in the economy” and avoid excessive payouts to shareholders.

Just in case the message is unclear, politicians have been jawboning banks into action. The chairman of the Senate banking committee has said that if “progress is not forthcoming, we are prepared to legislate”. France's finance minister says she hopes that “threats will be enough”.

Although the financial system needs such treatment, long-term state ownership of the banking system is an unattractive prospect. Academics have found a wealth of evidence that state-controlled banks can become politicised and misallocate capital. Paola Sapienza, of Northwestern University, found that Italian state-owned banks directed cheap credit to companies in regions which voted for their political patrons. A decade after Japan's financial crash, up to a third of firms were “zombies” kept alive through uncommercial lending by banks under government pressure.

Governments have tried to structure their investments as short-term. They will largely own non-voting instruments, in most cases preference stock. Almost all financial firms will remain listed with directors having a legal duty to consider the interests of all shareholders, not just the state. By ratcheting up coupon payments over time, governments hope to encourage banks to repay taxpayers as quickly as possible. Although there are hints that France may be tempted to micromanage its banks, most governments do not plan to. Following the template of Sweden's banking rescue in the 1990s, they want to sell and return taxpayers a profit within a few years.

But that will be a problem. Even if the outlook for the industry did not look so miserable, outside investors would still struggle to swallow all of this stock in one gulp. That could scupper governments' hopes for a quick exit. In a nasty economic climate, the political heat on banks could rise. Consider Germany's Commerzbank, which has received €8 billion ($10.1 billion) of capital, or almost double its market value. It may face pressure to preserve jobs and unprofitable loans as it tries to integrate Dresdner Bank, a rival it bought recently. Typically governments' preference shares carry the right to veto deals, a detail that could conceivably be used to block politically unwelcome takeovers.

How much freedom the banks have may depend on how the stakes are held. In America the Treasury will own the stakes directly, although it is seeking outside managers to advise it. The Dutch finance ministry will also hold on to its investments, although it does at least have a fair record of leaving important firms alone. Elsewhere in Europe most governments plan to create arm's-length agencies, but their independence is questionable. Being hands-on makes sense now, during the crisis. But it creates the risk that politicians will meddle too much in the future—and not just over a bill from a beauty salon.

Citigroup

A supertanker in trouble

Nov 20th 2008 | NEW YORK
From The Economist print edition

Captain Pandit cuts the crew, but Citigroup's problems run deep

WITH even the largest vessels now vulnerable to pirates, these are dangerous times for shipping. The same goes for financial supertankers such as Citigroup. Since taking the helm last December, succeeding the hapless Chuck Prince, Vikram Pandit has launched a series of measures to put the sprawling banking group back on course. But after four straight quarters of losses, there is no sign of profits on the horizon. Citi has been forced to deny newspaper reports of board disaffection.

Hence the decision to try something more radical: a plan to cut staff numbers by 52,000, which Mr Pandit euphemistically calls "rebalancing". The stockmarket, alas, blew an almighty raspberry in response. Citi's shares fell by a staggering 23% on November 19th, to a mere $6.40.

EPA

Do they know it's Christmas?

From the start, Mr Pandit faced an unenviable task. Citi did not only face giant losses on mortgage securities and plenty of exposure to souring consumer credit; it also entered the crisis as a dysfunctional confederation of businesses that had become too big to manage.

He is tackling the problem on several fronts. Dozens of new managers have been brought in, some of them old colleagues of Mr Pandit's from his days at Morgan Stanley. Risk management has been spruced up. Treasury has been centralised, to ensure that capital is allocated more efficiently. Costs are being scrutinised across the group: one divisional boss boasts that he now buys his own newspapers and provided his office rug. With more software developers than Microsoft, Citi has plenty of cost-cutting scope in technology, too. It is "at last making a serious effort to integrate and unify the organisation," says David Hendler of CreditSights, a research firm.

Mr Pandit is having a tougher time jettisoning what he calls "legacy" assets: those that are too risky or too esoteric. Shrinking the balance-sheet by $308 billion, or 13%, is an achievement in gummed-up markets. But Citi needs to cut its leverage further. At the end of September it still had almost $90 billion of high-risk holdings, much of which it no longer marks to market.

Despite calls from some disgruntled shareholders for a break-up, Mr Pandit is determined to keep Citi together. It is more resilient as a universal bank, he argues—witness the demise of independent investment banks—and there is gold in cross-selling, even if synergies have so far proved maddeningly elusive. Managers' pay will be linked to how well they co-operate with other parts of the group.

Citi has some strengths, too. It is a world leader in relatively stable corporate services such as cash management and transaction-processing. And it has an enviable presence in emerging markets. These face testing times—Citi's consumer loss rates in Brazil have jumped to 14%—but their long-term growth prospects are a lot better than America's. Citi is much less exposed to its home market than is its arch-rival, Bank of America (BofA).

Still, the near term will be ugly, even if confidence can be restored. Credit losses in Citi's huge card business are likely to pass the peaks of previous cycles, in part because it has taken on more subprime borrowers in recent years. Overall, losses from bad loans have risen by $4 billion in the past year and will continue to climb. The most pessimistic analysts expect Citi to post an annual loss for 2009. The job cuts will make it leaner but also hurt morale.

Citi's funding profile is another worry. Its base of stable deposits is smaller than those of competitors such

as BofA and JPMorgan Chase. It thought it had solved the problem with a deal to buy Wachovia, a Charlotte-based bank with a big branch network. But Wachovia was snatched away by Wells Fargo after Citi's letter of intent turned out to be less than watertight—Mr Pandit's worst slip-up so far.

The big question is whether Citi, which has already raised $75 billion in equity, a third of it from the government, will need more. It brags of a tier-one (core) capital ratio of 10.4%, giving it some $50 billion more than the minimum regulators consider safe. But as the economy weakens this surplus will get thinner. And Citi may yet have to bring a portion of its $1.2 trillion in off-balance-sheet assets onto its books under proposed accounting rules. Relatively modest transfers could leave it needing a lot of extra capital: up to $13 billion if it took on a mere one-fifth of its mortgage securitisations, reckons Mr Hendler.

Mr Pandit insists that Citi is "getting fit" and will reap the rewards, once the fruits of the restructuring become clear. But the share price, at a 13-year low, raises questions about his own future, and about Citi's. Though the American government would not allow Citi to fail, the idea that it will need further state support, or will need to be rescued by another bank, no longer seems fanciful.

Buttonwood

The big mo

Nov 20th 2008
From The Economist print edition

Why do share prices move relentlessly in one direction?

Illustration by S. Kambayashi

THESE days almost all stockmarkets seem to be falling inexorably. But in more normal times individual stocks are affected by momentum, which is the tendency for popular stocks to keep rising (and for unpopular ones to keep falling). When it comes to shares, what goes up does not always come down—at least in the short term.

The phenomenon has been noted in a wide range of studies and has often been exploited by fund managers, but it has puzzled academics for decades. It is hard to square with the idea that investors are rational. If it were easy to identify which shares were due to go up and which to go down by looking at their previous price movements, why would a rational investor be willing to sell the former group or buy the latter?

Explanations for momentum have thus tended to focus on the idea that investors are irrational. For example, they may be slow to recognise that the fundamentals of a business have changed for the better (or worse). A company may need to beat profits forecasts for two or three quarters before the market is willing to give the stock a premium valuation.

But a new working paper* by researchers at the London School of Economics (LSE) suggests that the momentum effect is still consistent with the idea that investors are rational. The paper's main insight is that most investors do not buy stocks directly, but give their money to fund managers. This creates an agency problem: how do the clients know that the managers are earning their fees?

In the short term, it is difficult to distinguish management skill from luck. Because the index represents the average return of all investors before costs, some managers will beat the index while others will underperform. There is a natural tendency to assume the outperformers are skilful. So the underperformers will lose clients and the outperformers will gain.

The dotcom bubble was a case in point. “Value” investors (who look for stocks that appear cheap by usual measures) ignored the technology industry. They were dumped by clients who gave money to “growth” investors (who look for companies with a promising future) instead. By itself, that pushed up the value of dotcom stocks and made the relative performance of value investors even worse.

In the academics' view, nobody was being irrational. The clients thought they were picking the best fund

managers; the value investors were avoiding overpriced stocks; the growth managers were doing what they were paid to do. After the dotcom bubble popped in March 2000, the same thing happened. Value managers started to outperform, so clients switched their money away from growth stocks. This continued for several years.

By extension, the theory also explains why momentum effects can occur at the industry level. If there is one industry (oil is a case in point) with a low correlation to the market, fund managers will watch their exposure to it very carefully, to avoid the risk of underperforming the index. So if oil shares are doing well, managers will be forced to buy them, pushing up their prices even further.

What is trickier to explain is why the momentum effect ever stops. Academics have found a tendency for a reversion to the mean (outperformers start to falter, underperformers to recover) over longer periods such as three to five years. The LSE authors suggest that momentum effects eventually take prices to such extreme levels that the gains from betting the other way are irresistible. The tricky question is who has the cash to take advantage.

Take the bursting of the dotcom bubble. Value investors were losing clients and so were selling not buying. Growth investors had a mandate from their clients to buy tech stocks and thus had no incentive to switch. And the index-trackers just bought the stocks in the index.

Reversion thus requires a *deus ex machina* in the form of some superrational investor (Warren Buffett, maybe?) or, the authors suggest, fund managers using their own money, who can take advantage of the opportunity provided.

The theory does provide some insights into how momentum might work. But relying on the notion of rational investors seems to complicate matters. If investors are rational, and cannot be sure whether active managers have skill, why do they not just put their money in index-trackers? The idea that investors can occasionally become irrational seems both simpler and intuitively more appealing, especially in the light of recent events.

---

*"An Institutional Theory of Momentum and Reversal". By Dimitri Vayanos and Paul Woolley. www.lse.ac.uk/collections/paulWoolleyCentre/

Troubled securities in Asia

Thanks, Hank

Nov 20th 2008 | HONG KONG
From The Economist print edition

Asian pensioners are the latest victims of Lehman's bankruptcy

WHEN Hank Paulson, America's treasury secretary, let Lehman Brothers fail in September, he surely did not consider the damage the investment bank's collapse would inflict on elderly savers a continent away. In Hong Kong, Singapore and Taiwan, thousands of people have taken to the streets to protest against the implosion of a series of retail securities which resulted from the bankruptcy.

Banks and regulators were taken off guard and are only now totting up the damage. Singaporean authorities estimate that 11,000 residents held duff securities with a face value in excess of S$530m ($347m). In Hong Kong, 43,700 residents held HK$20.1 billion-worth ($2.6 billion). In Taiwan, 51,000 people had tainted holdings of NT$40 billion ($1.2 billion). Some Taiwanese are expected to stage a mass protest on November 29th.

AFP

The backlash begins

Although many different securities were affected, they shared a common trait: fiendish complexity. One firm would arrange the structure and handle dividend payments. This was often Lehman, which was why they were commonly called "Lehman minibonds" (even though they were not bonds and were never simply Lehman obligations). Below the arranger were half a dozen or so "reference" banks which held collateralised-debt obligations and sometimes equity, issued by as many as 100-150 institutions.

From 2006 onwards, banks and brokers sold these now troubled securities to individuals desperate to earn more than the 1% or less on guaranteed deposits. Buyers were betting on modest returns, typically 5-6%, low enough perhaps for them not to have been too suspicious about the instruments' complexity.

Lehman's bankruptcy filing undermined its ability to pass along dividends even when the underlying structures were sound, which triggered the first defaults. Securities arranged by Merrill Lynch and DBS Bank in Singapore then collapsed because Lehman credit was an ingredient in their composition.

Inevitably, lawsuits will be filed. Because most securities were sold with lengthy prospectuses that made clear the lack of principal protection, the cases are likely to rest on the premise that the investments were unsuitable for the customers, or not understood by the salespeople.

Rather than waiting for messy court battles, Singapore has taken the novel step of asking firms to reimburse "vulnerable customers", meaning those who are old or illiterate or who lost a lot. Authorities plan to investigate and say they will take into account how generously institutions treat their customers in the aftermath.

Behind the scenes, Singaporean authorities are also attempting to find a way to reconfigure the securities to capture the value of the underlying collateral. This kind of twin-track approach may hold appeal for governments around the region. Wealthy investors across Asia are sitting on vast losses from lots of other odd financial products created during the boom. The authorities would hate them to take to the streets, too.

Global governance

Goodbye G7, hello G20

Nov 20th 2008 | WASHINGTON, DC
From The Economist print edition

A bit of good news after a big summit

JUDGED by the hubristic promises that preceded it, the G20 meeting was bound to disappoint. The leaders of the world's 20 biggest rich and emerging economies, gathered in Washington, DC, on November 15th, did not remake global finance—as some of them had set out to do. Nor, as others had hoped, did they come up with a co-ordinated fiscal boost to counter the deepening global downturn (though they talked of using fiscal measures "to rapid effect").

And within days even some of their promises looked thin. The five-page communiqué included a solemn pledge that G20 countries would "refrain from raising new barriers" to trade and investment over the next twelve months. Two days later Russia's government said it would raise tariffs on imported cars. On November 18th India slapped a 5% duty on a number of iron and steel products.

So was it all a waste of time? There are some reasons to think not. For one, this was the first time the leaders of this group of rich and emerging economies—which between them represent almost 90% of global GDP—had gathered for an economic summit. They have already scheduled a follow-up session before April 30th, and the old, rich-only G7 looks increasingly anachronistic.

Fortunately, the G20's attitude to global finance seems realistic. The communiqué was not a grand manifesto but a pragmatic acknowledgment of the tension between a globalising capital market and national regulation. From the creation of colleges of financial supervisors to oversee the biggest cross-border financial institutions to the development of a single global accounting standard, the G20 leaders set out incremental reforms to the rules of global finance.

They also made clear that the governance of global financial institutions must change. The membership of the Financial Stability Forum, a group of regulators and central bankers charged with the technicalities of financial supervision, is to be broadened. The IMF and World Bank are to be "comprehensively" reformed. It is easy to be cynical. Talk about reforming power within the IMF has gone on for years. But with emerging economies now firmly at the top table of international finance, such an overhaul has become much more likely. Not a new Bretton Woods—but a decisive shift in the old order.

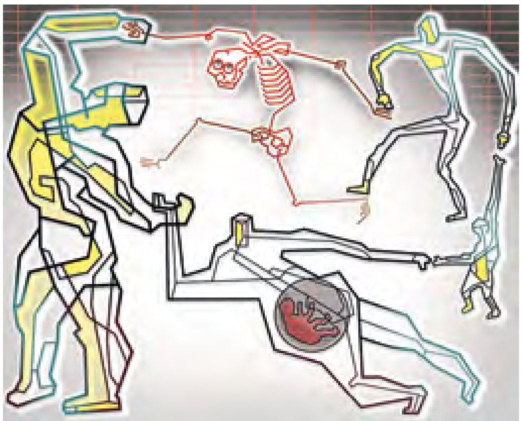
Economics focus

Health and wealth

Nov 20th 2008
From The Economist print edition

Improved health does not always make countries richer

Illustration by Jac Depczyk



JEFFREY SACHS, a development economist, writes in his book "The End of Poverty" of a telling phrase by Gro Harlem Brundtland, then the director-general of the World Health Organisation (WHO). "If you want to get someone's attention about the health crises in Africa, 'show them the money'," she once remarked to him. This is something that governments and international agencies have long known: emphasising that an idea is good for economic growth makes it easier to sell. The WHO has used the same argument to press for more investment in health.

The link between health and income seems pretty uncontroversial. After all, healthy people can work longer and harder than sick people. Healthier children are likely to stay in school longer and learn more, earning more when they enter the workforce. Even across countries the relationship seems clear: those with better health are generally richer, and those that improve their citizens' health grow faster. So the conclusions of two recent papers that improving life expectancy at birth (a common indicator of better health) can depress income per head for as long as two generations may come as a shock.

Correlation or causation?

Daron Acemoglu and Simon Johnson, both of the Massachusetts Institute of Technology (Mr Johnson is a former chief economist of the IMF), are sceptical* about the notion that healthier countries are richer, because it is not clear where the causality lies: countries with higher incomes may simply spend more on health. To investigate, they needed to study health improvements that were not driven by economic growth in the countries concerned. The expansion of the international public-health system after 1940, the researchers found, fitted the bill.

Beginning in the 1940s, several medical innovations involving penicillin, streptomycin and DDT made it easier to treat diseases—such as tuberculosis, malaria and yellow fever—that disproportionately affected people in developing countries. Because these ideas originated in the rich world and were spread by organisations such as the WHO, any improvements in health they led to would have been unconnected with prior improvements in the economic circumstances of poor countries.

This international revolution in public health did lead to substantial increases in life expectancy in poor countries by the 1950s. However, the researchers found that income per head actually declined when life expectancy went up and did not recover for up to an astonishing 60 years.

The reason was that increased life expectancy led to a higher population using a limited stock of things like land and capital, thus depressing income per person. Over time, reduced fertility, more investment and the entrepreneurial benefits of having more people could reverse some of this, but the data suggested that reductions in fertility in particular took a long time.

Researchers at Brown University reached a similar conclusion†. They used estimates of how various health improvements affected different economic variables, such as schooling, and how schooling in turn affected adult wages, in a model of the economy to work out the broader impact of an increase in life expectancy. Their results looked forward and confirmed what Messrs Acemoglu and Johnson had found by looking back: increased population would more than wipe out any productivity benefits of better health. For the first 30 years after an increase in life expectancy from 40 to 60, income per person would be lower than it would have been if life expectancy had not improved.

Hoyt Bleakley of the University of Chicago thinks‡ these results may be too pessimistic. He argues that the Malthusian spectre of diminishing returns as more people crowd on to the same plot of farm land is less relevant in a fast-urbanising developing world, as well as in one more open to trade and capital flows.

Mr Bleakley also argues that focusing on life expectancy may miss the point. Some health improvements may not lead to a longer life, but may nonetheless make people more productive. Hookworm infection, whose eradication from the American South Mr Bleakley has studied, is a case in point. Getting rid of hookworm disease made children quicker learners in school, and increased their incomes when they started working. However, it did not increase life expectancy since the infection was not fatal and so did not lead to a rise in population, which could have prevented individual benefits from carrying over to the economy as a whole. Policies that improve health without affecting the length of life may well be the ones that have a bigger economic pay-off, and a focus on life expectancy may miss this.

Some of Mr Bleakley's other work points in this direction. Studying the impact of the eradication of malaria in Colombia, he noted that parts of the country were affected by a species of the malarial parasite called *Plasmodium vivax*, which led to very poor health but was rarely fatal. The more lethal version, *P. falciparum*, affected other areas. He found that eliminating *P. vivax* led to significant gains in human capital and income; eliminating *P. falciparum* did not.

So even if the researchers at Brown and MIT are correct that increasing life expectancy does not quickly increase income per head, particular health improvements may well do so. Meanwhile, the lesson is that careful analysis should precede any sweeping statements about the economic benefits of specific policies. It may be best to make a case for improving health because it is a good thing in itself, rather than on the basis of presumed economic benefits that may not appear for generations.

---

* "Disease and Development: The Effect of Life Expectancy on Economic Growth".
†"When Does Improving Health Raise GDP?" By Qamurul Ashraf, Ashley Lester and David Weil.
‡"Comments on Acemoglu and Johnson (2006)"; and "Comments on Ashraf, Lester and Weil (2008)".

Criminology

Can the can

Nov 20th 2008
From The Economist print edition

The idea that graffiti-spraying and other forms of low-level delinquency promote further bad behaviour has now been tested experimentally

Getty Images

A PLACE that is covered in graffiti and festooned with rubbish makes people feel uneasy. And with good reason, according to a group of researchers in the Netherlands. Kees Keizer and his colleagues at the University of Groningen deliberately created such settings as a part of a series of experiments designed to discover if signs of vandalism, litter and low-level lawbreaking could change the way people behave. They found that they could, by a lot: doubling the number who are prepared to litter and steal.

The idea that observing disorder can have a psychological effect on people has been around for a while. In the late 1980s George Kelling, a former probation officer who now works at Rutgers University, initiated what became a vigorous campaign to remove graffiti from New York City's subway system, which was followed by a reduction in petty crime. This idea also underpinned the "zero tolerance" which Rudy Giuliani subsequently brought to the city's streets when he became mayor.

Many cities and communities around the world now try to get on top of anti-social behaviour as a way of deterring crime. But the idea remains a controversial one, not least because it is often difficult to account for other factors that could influence crime reduction, such as changes in poverty levels, housing conditions and sentencing policy—even, some people have argued, the removal of lead from petrol. An experimental test of the "broken windows theory", as Dr Kelling and his colleague James Wilson later called the idea, is therefore long overdue. And that is what Dr Keizer and his colleagues have provided.

The writing's on the wall

Dr Kelling's theory takes its name from the observation that a few broken windows in an empty building quickly lead to more smashed panes, more vandalism and eventually to break-ins. The tendency for people to behave in a particular way can be strengthened or weakened depending on what they observe others to be doing. This does not necessarily mean that people will copy bad behaviour exactly, reaching for a spray can when they see graffiti. Rather, says Dr Keizer, it can foster the "violation" of other norms of behaviour. It was this effect that his experiments, which have just been published in *Science*, set out to

test.

His group’s first study was conducted in an alley that is frequently used to park bicycles. As in all of their experiments, the researchers created two conditions: one of order and the other of disorder. In the former, the walls of the alley were freshly painted; in the latter, they were tagged with graffiti (but not elaborately, to avoid the perception that it might be art). In both states a large sign prohibiting graffiti was put up, so that it would not be missed by anyone who came to collect a bicycle. All the bikes then had a flyer promoting a non-existent sports shop attached to their handlebars. This needed to be removed before a bicycle could be ridden.

When owners returned, their behaviour was secretly observed. There were no rubbish bins in the alley, so a cyclist had three choices. He could take the flyer with him, hang it on another bicycle (which the researchers counted as littering) or throw it to the floor. When the alley contained graffiti, 69% of the riders littered compared with 33% when the walls were clean.

To remove one possible bias—that litter encourages more litter—the researchers inconspicuously picked up each castaway flyer. Nor, they say, could the effect be explained by litterers assuming that because the spraying of graffiti had not been prevented, it was also unlikely that they would be caught. Littering, Dr Keizer observes, is generally tolerated by the police in Groningen.

The other experiments were carried out in a similar way. In one, a temporary fence was used to close off a short cut to a car park, except for a narrow gap. Two signs were erected, one telling people there was no throughway and the other saying that bicycles must not be left locked to the fence. In the “order” condition (with four bicycles parked nearby, but not locked to the fence) 27% of people were prepared to trespass by stepping through the gap, whereas in the disorder condition (with the four bikes locked to the fence, in violation of the sign) 82% took the short cut.

Nor were the effects limited to visual observation of petty criminal behaviour. It is against the law to let off fireworks in the Netherlands for several weeks before New Year’s Eve. So two weeks before the festival the researchers randomly let off firecrackers near a bicycle shed at a main railway station and watched what happened using their flyer technique. With no fireworks, 48% of people took the flyers with them when they collected their bikes. With fireworks, this fell to 20%.

The most dramatic result, though, was the one that showed a doubling in the number of people who were prepared to steal in a condition of disorder. In this case an envelope with a €5 ($6) note inside (and the note clearly visible through the address window) was left sticking out of a post box. In a condition of order, 13% of those passing took the envelope (instead of leaving it or pushing it into the box). But if the post box was covered in graffiti, 27% did. Even if the post box had no graffiti on it, but the area around it was littered with paper, orange peel, cigarette butts and empty cans, 25% still took the envelope.

The researchers’ conclusion is that one example of disorder, like graffiti or littering, can indeed encourage another, like stealing. Dr Kelling was right. The message for policymakers and police officers is that clearing up graffiti or littering promptly could help fight the spread of crime.

Psychology

Cleanliness is next to godlessness

Nov 20th 2008
From The Economist print edition

Soaping away your outer dirt may lead to inner evil

PUBLIC displays of untidiness, such as graffiti, may promote bad behaviour (see article), but when it comes to personal cleanliness the opposite appears to be true. A study just published in *Psychological Science* by Simone Schnall of the University of Plymouth and her colleagues shows that washing with soap and water makes people view unethical activities as more acceptable and reasonable than they would if they had not washed themselves.

Dr Schnall’s study was inspired by some previous work of her own. She had found that when feelings of disgust are instilled in them beforehand, people make decisions which are more ethical than would otherwise be expected. She speculates that the reason for this is that feeling morally unclean (ie, disgusted) leads to feelings of moral wrongness and thus triggers increased ethical behaviour by instilling a desire to right the wrong. However, as the cleanliness and purification rituals found in many religions suggest, physical cleanliness, too, is linked to moral behaviour, so she decided to investigate this as well.

To do so, she conducted two experiments. The first asked 40 volunteers to unscramble sentences. Half were given sentences containing words associated with purity and cleanliness, such as “pure”, “washed”, “clean”, “immaculate” and “pristine”. Those given to the other half contained only neutral words. The volunteers were then asked to describe how they would rate a series of acts on an ethical scale ranging from zero (perfectly okay) to nine (very wrong). These varied from taking money found in a lost wallet, via eating a family’s dead dog to avoid starvation, to using a kitten for sexual arousal.

The second experiment exposed 44 volunteers to a three-minute clip from “Trainspotting”, a film that is well known for eliciting feelings of disgust, to make them all feel unclean. The volunteers were then asked to describe how they would rate the same series of acts as in the first experiment. However, after watching the clip and before being exposed to the ethical questions, half of the participants were told that the room in which they were to do the rating was a sterile staff space that needed to be kept clean. They were therefore asked, please, to wash their hands with soap and water when entering.

The researchers report that those who were given the “clean” words or who washed themselves rated the acts they were asked to consider as ethically more acceptable than the control groups did. Among the volunteers who unscrambled the sentences, those exposed to ideas of cleanliness rated eating the family dog at 5.7, on average, on the wrongness scale whereas the control group rated it as 6.6. Their score for using a kitten in sexual play was 6.7; the control group individuals gave it 8.3. Similar results arose from the handwashing experiment.

Physical purification, in other words, produces a more relaxed attitude to morality. Perhaps it is no coincidence that Pontius Pilate is portrayed in the Bible as washing his hands of the decision to crucify Jesus. Something to think about for those who feel that purification rituals bring them closer to God.

Loudspeakers

Nanotunes

Nov 20th 2008
From The Economist print edition

Nanotubes made of carbon find an unexpected use

CARBON nanotubes have been all the rage in chemistry over the past decade, but actual applications are thin on the ground. The tubes (cylinders a few billionths of a metre across, whose walls are made of carbon atoms) have found their way into tennis racquets and bicycles' handlebars, where they provide strength and stiffness. But Lilliputian nanoradios, nanomotors and the like have, so far, been confined to the laboratory.

With luck, that fate will be avoided by the latest addition to the list. Carbon nanotubes, it turns out, can be used to make paper-thin loudspeakers. As they report in a forthcoming issue of *Nano Letters*, a group of researchers led by Jiang Kaili of Tsinghua University in Beijing have developed a transparent film made of nanotubes. When electrodes are attached to the ends of this film, and a signal-carrying current is passed through it, the result is a sound that matches the signal. Carbon-nanotube speakers play music with a fidelity similar to that of conventional loudspeakers. What is more, they continue to play even while they are being bent and stretched.

A conventional "moving coil" loudspeaker—like the one in your stereo—is made of a bulky permanent magnet, a coil of copper wire and a flexible diaphragm, housed in an enclosure. When a varying electrical current is passed through the coil it creates a varying magnetic field that interacts with the field of the permanent magnet. The diaphragm moves back and forth in response to this interaction, causing pressure waves to form in the air in front of it. The listener perceives these waves as sound.

Nanotubes produce sound by a different mechanism, known as the "thermoacoustic effect", which is also responsible for the thunderclap that follows a burst of lightning. Lightning is created when an electrical arc jumps between clouds, or between clouds and the ground. The arc heats the air surrounding it and causes that air to expand rapidly, producing a shock wave that is heard as thunder. With the nanotubes, variations in the electrical current cause the air surrounding the tubes to heat up (and thus expand) or cool (and thus contract), which produces pressure waves that register as sound. The beauty of generating sound this way is that no bulky magnets or moving diaphragms are needed.

In fact, the thermoacoustic effect has been employed in a similar way before. In the 19th century, a device called a thermophone, which used metal sheets to generate sound, was developed. But the effect was so weak that the thermophone never took off. Dr Jiang says nanotubes produce a bigger thermoacoustic effect than metal because carbon has a lower heat capacity. More of the converted electrical signal thus ends up in the air.

Potential applications of flexible and stretchable carbon-nanotube loudspeakers include speakers on clothing, windows, flags, and video and laptop screens. It helps that nanotube films continue to produce sound if torn, unlike a torn diaphragm in a conventional loudspeaker. Earphones and hearing aids might also benefit from the new approach.

There is some way to go before the technology can be commercialised. The biggest task is devising a way to create the necessary films in industrial quantities. But if that can be done, the next generation of loudspeakers may be almost invisible. The speaker-banks at rock concerts will never be the same again.

Stem cells

Breathe in deeply, please

Nov 20th 2008
From The Economist print edition

Stem-cell medicine takes a step forward

AP

Ms Castillo relaxes

IN THE hierarchy of transplant surgery, replacing a bronchus (the passage from the main windpipe, the trachea, into a lung) does not sound difficult compared with, say, plumbing in a new heart. In fact, until a few months ago, it had never been attempted. The reason was not that the surgery itself would be hard, but that the tissue in question, which is the first line of defence against the bacteria and viruses that come with every lungful of air, has a remarkably active immune response. So active, indeed, that if you transferred part of an airway from one person to another, the resulting immunological conflict would probably kill the recipient. Since a weak bronchus, though debilitating, is seldom life-threatening, transplant surgeons have left well-enough alone.

In a blaze of publicity this week, that changed. A paper in the *Lancet*, published by a team led by Paolo Macchiarini of the Hospital Clinic in Barcelona, described such an operation, carried out in June on a patient called Claudia Castillo, whose left bronchus had been damaged by tuberculosis. The reason for the publicity, though, was not that this was the first bronchial transplant, but rather that it involved some serious bioengineering using stem cells.

Stem cells exist to replenish the supply of other cells. When a stem cell divides, it sometimes produces daughters that are different from one another. One is another stem cell. The other is the first step on the path to a particular sort of tissue such as the lining of a windpipe. The idea behind stem-cell bioengineering is to use the recipient's own stem cells to create an artificial organ that will be recognised as part of the body by the recipient's immune system, and thus not rejected. And this, in the case of Ms Castillo's new bronchus, is what Dr Macchiarini and his team have done.

To make an artificial organ requires two things. One is the right sort of cells. The other is a framework on which to grow those cells so that they take up the right shape. Previous projects of this sort, which have successfully created artificial skin and artificial bladders, have relied on synthetic frameworks. A windpipe, though, is a more complicated structure than skin or a bladder. The starting point for Ms Castillo's transplant, therefore, was a piece of trachea removed from a dead donor.

The team stripped this of its cells (and thus of the antigens that provoke an immune response) by treating it with a special detergent. That left a trachea-shaped piece of cartilage. They then took samples of Ms Castillo's other bronchus and also her bone marrow and grew them as cell cultures. The bronchial samples consisted mainly of what are known as epithelial cells, and with these it was just a question of multiplying their numbers. The bone marrow was the source of the stem cells that made the procedure newsworthy.

Most bone-marrow stem cells generate blood cells. A few, though, can produce chondrocytes, the cells that make cartilage. The team extracted these, cultured them and then used a special growth factor to

persuade them to spin off chondrocytes.

Both epithelial cells and chondrocytes were applied liberally to the treated trachea and the result, when it had settled down into something that resembled a natural windpipe, was transplanted into Ms Castillo. She, as the photograph suggests, has now made a full recovery. And those who have been asking of stem-cell science, “Where’s the beef?”, have been served what is, at least, an appetiser.

Qatar's Museum of Islamic Art

Smart art mart

Nov 20th 2008 | ABU DHABI, DOHA, DUBAI
From The Economist print edition

The Gulf states are each vying to be the new cultural centre of the Middle East

Museum of Islamic Art Qatar

THE Medicis made their money out of banking and then, to atone for the sin of usury, financed the Renaissance. America's robber barons built grand museums in provincial locales like Cleveland, Cincinnati and Chicago. Now, a similar kind of alchemy is turning the oil of the Persian Gulf into art, in a rush of royal patronage that may, some day, turn its pocket-sized monarchies into cultural meccas.

Having stashed away more than a trillion dollars as a result of high oil prices, the region's ruling families are racing to see who can embellish their realm with the best museums, the coolest art fairs, the flashiest festivals. The sudden recent fall in the oil price from its midsummer record may yet trim ambitions. But the scale and number of projects under way is already transforming the Gulf's string of Arab city-states into increasingly important stops on the international culture circuit.

The most recent arrival is Qatar's Museum of Islamic Art, unveiled on November 22nd before a flown-in crowd of more than 1,000 dignitaries. Designed by I.M. Pei, the Chinese-born creator of such landmarks as the Louvre pyramid, the Bank of China tower in Hong Kong and the East Building of the National Gallery of Art in Washington, DC, the simple, stone-faced structure (pictured above) occupies an artificial island facing the palm-fringed corniche of Qatar's capital, Doha.

Coffered ceilings and geometric forms pay respect to Islamic architectural traditions, but the building is sober rather than sumptuous; more a receptacle than a showpiece, and well-scaled to the collection inside. This, the product of a buying spree by the ruling al-Thani family that began only in the mid-1990s, is modest in size but wide in range, and packed with high-quality objects. The pleasing impression is of a private collector's trove rather than an institution's didactic taxonomy, enlivened by such nuggets as a silk wall-hanging that once graced the Alhambra in Granada, exquisite Persian miniatures from the great 16th-century Shahnameh of Tahmasp and a jade pendant worn by a Mughal emperor, Shah Jahan.

The pendant was the subject of a discreet scandal in 2005, when the Qatari buyer, Sheikh Saud al-Thani, a cousin of the emir, was placed under house arrest after being accused of misusing public funds in buying art treasures. A two-year delay in the museum's construction, tight-lipped responses to questions about its cost and a high turnover of staff also hint at other troubles. But Qatar's subjects have reason to be pleased with the remarkable, beautifully displayed collection that their ruling family has created.

This may be only the first of several projects. Officials at the Qatar Museums Authority (QMA), a newly

created body, are coy about what might be in store. What is known is that Qatari royals, including the emir's now-forgiven cousin, have been active buyers. Their purchases range from Chinese gold objects to modernist paintings, among them an abstract by Mark Rothko, sold by David Rockefeller last year for $72.8m. "They are very discreet about money and the direction of investment, but they are looking for world-class pieces," is all a QMA official would say.

Yet it is not Qatari money alone that has inflated art prices in recent years. Qatar is, according to the IMF, the world's richest country on a per-head basis. But Abu Dhabi, the oil-rich anchor among the seven statelets that make up the United Arab Emirates, has built up a far bigger cash pile. More discreetly than Qatar's, its royals are busy kitting out several even more ambitious projected museums.

At the Emirates Palace, a Versailles-scale hotel on Abu Dhabi's sleek seafront, an historic photograph opens a small exhibition displaying plans for a cultural district on a new island suburb. The black-and-white picture shows a train of pack camels wading the ford that, until 50 years ago, was the sole land access to the Manhattan-sized—and increasingly Manhattan-looking—island of Abu Dhabi. The nearby sandflat of Saadiyat, which will soon be linked to Abu Dhabi by a bridge and by causeways to the mainland, is to house no fewer than four new museums and a vast performing-arts centre, which are themselves the centrepieces of a giant, $27 billion development that includes beach resorts, a giant marina, golf courses and luxury housing for 170,000 people.

Construction has already begun. By 2018 the shore of the island is expected to be studded with giant cultural institutions, each of them rivalling Sydney's famed opera house in eye-catching monumentality. Frank Gehry, the California architect who designed the iconic Guggenheim offshoot in Bilbao, is to create an even larger, similarly metallic, swirling and shimmering contemporary-art museum here, under the same brand. The nearby branch of the Louvre, designed by another renowned architect, Jean Nouvel, features a village-like cluster of structures under a giant, translucent shallow dome intended to filter sunlight like palm fronds. Abu Dhabi has signed a $1.6 billion contract with France's national museums, by which the Louvre and its sisters will lend objects and expertise to the emirate's franchise for 30 years. Meanwhile, a Japanese architect, Tadao Ando, has designed an ultra-minimalist arch that is to function as a maritime museum, and Zaha Hadid, an Iraqi-born Briton, has conceived a Dalíesque theatre complex.

Filling all these spaces will not be easy, considering the emirate's small population, many of whom are low-paid guest workers. But Abu Dhabi's ambition is not limited to building signature monuments. It also plans to be the region's creative hub. To this end, it is, among other things, sponsoring a project to translate 1,000 of the world's great books into Arabic, launching a film-production company that plans to inject $1 billion into joint ventures with big Hollywood studios, and creating what is described as an "ecosystem for media content creation" that offers incentives to publishers, television studios and other packagers of culture.

All this effort is helping Abu Dhabi catch up with its more boisterous competitor, Dubai. Until recently, the freewheeling sister emirate was better known for excessive superlatives such as the world's tallest building, its biggest indoor ski slope and other catchy baubles. With much of its money leveraged in giant property schemes, Dubai has lacked finance for huge public institutions. But the scale of Dubai's growth has begun to generate something that is still lacking in Qatar and Abu Dhabi: a large, well-heeled and discerning class of art patrons. "There is a significant collector base emerging here, many of them young, and most of them Indian, Arab and Iranian expats," says a Dubai gallery owner.

In just a few years, contemporary-art galleries have multiplied in the emirates. The leading London auction houses are all there, and the *Art Newspaper* is considering launching a special Middle Eastern edition, in English and Arabic. Ideally situated between western Europe, Russia and India, the Gulf states are rapidly taking over from more staid cities, such as Cairo, Beirut and Tehran. They are already important tourist destinations. Building great museums to showcase their treasures should only increase their appeal.

The politics of inflation

Onward and upward

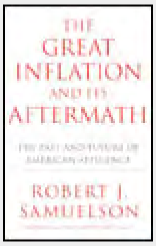
Nov 20th 2008
From The Economist print edition

MILTON FRIEDMAN was wrong. Inflation is always and everywhere a social phenomenon, not a monetary one. At least, that is how Robert Samuelson sees it. “The Great Inflation and its Aftermath” dwells little on the economics of inflation; the main text does not mention the Federal Reserve until page 31. Instead, it examines the intellectual and political currents that let inflation rise from 1% in the early 1960s to nearly 15% in 1980 and then brought it down again.

This is a laudable enterprise. Historians have devoted reams of scholarship to the Vietnam war and the civil-rights movement but almost nothing to the parallel rise in inflation, whose impact on society has been arguably as great.

Inflation began, Mr Samuelson writes, because the followers of John Maynard Keynes who dominated economics after the second world war convinced John Kennedy that reducing unemployment would cause only a small rise in inflation. But as inflation increased, it became politically impossible to bring it down. In 1968 Richard Nixon asked Herbert Stein, a nominee for his Council of Economic Advisers, what the president-elect’s biggest economic challenge would be. When Stein replied inflation, Nixon “immediately warned me that we must not raise unemployment,” Stein later wrote.

The Great Inflation and its Aftermath: The Past and Future of American Affluence
By Robert J. Samuelson



Random House; 336 pages; $26

Mr Samuelson, an economics columnist for the *Washington Post* and *Newsweek*, graphically recounts the futile efforts of various presidents to contain inflation, and the toll they exacted. Lyndon Johnson attacked steelmakers who raised prices as unpatriotic. When shoe prices rose he slapped export controls on hides to increase the supply of leather. After Nixon imposed wage and price controls, “food processors were squeezed between rising feed costs and fixed selling prices,” Mr Samuelson writes. One chicken hatchery drowned 43,000 baby chicks on television because, its manager said, “it’s cheaper to drown ’em than…to raise ’em.”

The author convincingly argues that Ronald Reagan shares credit with Paul Volcker, who became chairman of the Federal Reserve in 1979, for breaking inflation’s back. Despite the political damage of Mr Volcker’s policies, Reagan’s support never wavered. That mattered because despite its nominal independence the “Fed needed political protection.”

“The Great Inflation and its Aftermath” is readable, but often frustrating. Rather than proceeding chronologically, it hopscotches back and forth between decades, repeatedly pounding home the points it wants to make. Despite the forward-looking subtitle, Mr Samuelson does not demonstrate that the great inflation has much bearing on America’s future. He spends much of two chapters, 73 pages in all, reeling off a list of contemporary economic problems, from excessive entitlement spending to global imbalances that have little to do with inflation. Meanwhile, he devotes just a few paragraphs to inflation’s most crucial impact on the present. The decline in interest rates that followed inflation’s defeat created bubbles in stocks and houses and fuelled a “reach for yield” whose undoing is at the heart of the current crisis.

More puzzling is the fact that, in a year in which inflation and deflation have both repeatedly hit the headlines, Mr Samuelson devotes little time to speculating on the future course of inflation and the political pressures that will affect it. That is a pity because it is a ripe subject.

Central bankers may have risked deflation by being slow to respond to the financial crisis which coincided with surging oil prices, invoking memories of the great inflation of the 1970s. On the other hand, the unprecedented expansion of the Federal Reserve’s balance-sheet and powers raises worries about inflation’s return. How bad will it get and what political appetite will there be for resisting it? Perhaps

these questions arose too late to be included in this historical account. Unfortunately, the reader is left with the misguided idea that inflation is a bit like tuberculosis: a terrible scourge in our parents' era but one that has little impact on our own.

The Great Inflation and its Aftermath: The Past and Future of American Affluence.
By Robert J. Samuelson.
Random House; 336 pages; $26

Chess

Pawnography

Nov 20th 2008
From The Economist print edition

White King and Red Queen: How the Cold War Was Fought on the Chessboard
By Daniel Johnson

Houghton Mifflin; 384 pages; $26. Atlantic Books; £22

Buy it at
Amazon.com
Amazon.co.uk

CHESS is so tempting a political metaphor that it is easy to forget it is a game. A murderous game, perhaps, like croquet. But still a game. In "White King and Red Queen", Daniel Johnson, a British journalist and historian, gives in to temptation. Persuaded that chess "furnished the best metaphor for the cold war", he writes two books in one. The first is a lively, anecdote-packed story of chess in the 20th century, for much of which Soviet players excelled. The second book is a catalogue of Soviet wickedness and duplicity, focused on but not limited to the chessboard. The resulting mix is flavourful, but odd.

Chess flourished in the Soviet Union. By 1970, Mr Johnson tells us, the Soviet Union had 5m club players. The game was also rigorously studied and trained for. From the mid-1930s to the 1980s, Soviet grandmasters dominated world chess. A knowledgeable amateur himself, Mr Johnson cannot help admiring that achievement. When he is not sermonising, his book fizzes with inside detail. He describes an overall Soviet style, but notes also great players' quirks. He conveys the tension and theatrics of top play.

Running in and out of "White King and Red Queen", which came out in Britain a year ago and is just being published in America, is a darker tale of manipulation and ideological purpose. Soviet authorities controlled arts and sports. They could have suppressed or discouraged chess. They did the opposite. An innocent might think that was because chess was politically harmless and because Russians played it well. Neither reason is enough for Mr Johnson. To him, Soviet chess prowess originated in Bolshevik doctrine—the game, like socialism, was "scientific"—and was later a handy tool in cold-war diplomacy.

Once on top, he tells us, Soviet players stayed there thanks in part to dirty tricks in international matches. How big a part, Mr Johnson does not say. History, unlike a chess game, is not replayable. That the Soviets would have lost without bad sportsmanship is at this distance unprovable. An opposite, but equally spongy, explanation mars another chapter, "The Jewish Factor". In it Mr Johnson wonders if Soviet success was due to its large share of Jewish players, genetically blessed, he suggests, with better brains.

The book's centrepiece is the Reykjavik match in 1972 when Boris Spassky lost the world championship to a brilliant American, Bobby Fischer. Chess buffs treasure game 11, when Mr Spassky trapped Fischer's recklessly errant queen, and game 13, when Fischer's five black pawns won a long, back-and-forth end-game. Mr Johnson makes those gems sparkle for non-players. His main interest, though, is the chaotic goings-on off the board.

Fischer refused at first to show up. He was demanding, venal, anti-Semitic and, even then, borderline mad. Soviet chess bureaucrats bullied Mr Spassky for laziness. They accused Fischer's team of attempting mind control on his opponent. World chess officials dithered. The antics made headlines, which the games could never have. But Mr Johnson fails to persuade us that any of this mattered.

In 1972 America and the Soviet Union were keen to get on with each other. You might more reasonably take the Reykjavik match as a sign of co-operation, not conflict. With the end of the Soviet Union, what Mr Johnson calls the Soviet chess "machine"—its training bureaucracy and party minders—died too. By then a different kind of machine, the chess computer, was changing the game. Garry Kasparov, the author's hero, who was world champion in 1985-93 and perhaps the strongest player ever, links the two developments. Retired from chess, he is now a brave oppositionist in Vladimir Putin's Russia.

In his acknowledgments the author thanks several neo-conservative luminaries for his "moral clarity" in

perceiving Soviet wickedness. How the intricacies of chess reflect such certitude is obscure. Almost nothing in the game is black and white. Winning depends on patient exploitation of tiny advantages. At grandmaster level, as Mr Johnson reminds us, most games end in draws. Chess, in other words, is not at all like political morality as he pictures it. His metaphor lets him down.

White King and Red Queen: How the Cold War Was Fought on the Chessboard.
By Daniel Johnson.
Houghton Mifflin; 384 pages; $26. Atlantic Books; £22

American poets

Serious engagement

Nov 20th 2008
From The Economist print edition

Words in Air: The Complete Correspondence Between Elizabeth Bishop and Robert Lowell
Edited by Thomas Travisano and Saskia Hamilton

Farrar, Straus and Giroux; 928 pages; $45. Faber and Faber; £40

Buy it at
Amazon.com
Amazon.co.uk

THE easy flow of letters between Robert Lowell and Elizabeth Bishop, two of America's greatest 20th-century poets, began in 1947, and continued for 30 years. It was a correspondence, from first to last, of an unusual intensity.

Although they were both New Englanders, their writerly temperaments were quite different. Bishop wrote and published her poetry slowly. She produced just three collections during her lifetime. She was sedulous, pernickety, quietly determined; she would work on poems for years. Her letters—models of gentle, hesitant statement—have something of those same qualities of tentativeness, restraint and minute attention. Her observations of the natural world are acute and fresh, but also objective, reaching beyond herself. The sound of the ego is turned well down.

Lowell was much more prolific and more raucously in and of the world. His private life was tumultuous, his manic episodes legion. His observations of the world reflect his inner moods: charged, noisy, dramatic. The long-awaited 2003 edition of his collected poems runs to almost 1,000 pages. Bishop's collected poems is one-quarter of that length.

They were never lovers, and although the much-married Lowell once considered proposing to Bishop, he never did. And yet the two admired each other more than they admired any other living poets and corresponded with an unusual seriousness of engagement. When Lowell wrote to Bishop he was, for once, not involved in an act of performance. When Bishop wrote to Lowell she knew that she was reading his poems more deeply, and with more responsible attention, than any other friend would ever dare to do. They knew no better—and no more fearless—critics than each other.

Throughout his life, Lowell was a professional man of letters, who, as teacher and reviewer, stood at the centre of the literary world. Bishop, by contrast, often felt as if she were slightly lost, floating through a miasma of self-doubt. She moved around a lot. She spent 15 of her most productive years in Brazil and came to teaching late in her life. Socially tentative, she did not make waves in the world of poetry. Her reputation has grown, quietly, since her death in 1979. It was Lowell who was the roaring, self-lacerating, tragic king of the poetry jungle.

These letters are full of delightfully acute observations about literary personalities and tell us much about the art of poetry in America—how poets think, behave and suffer. But the literary talk is constantly being interrupted by the smaller things of life and these wonderfully human documents are an appealing mix of the bookish and the everyday. Their turns of phrase are so savoursome they almost precipitate into poetry itself.

From beginning to end, the two poets needed each other. "Please never stop writing me letters," Bishop once wrote to Lowell. "They always manage to make me feel like my higher self."

Words in Air: The Complete Correspondence Between Elizabeth Bishop and Robert Lowell.
Edited by Thomas Travisano with Saskia Hamilton.
Farrar, Straus and Giroux; 928 pages; $45. Faber and Faber; £40

France in the second world war

Smoke and mirrors

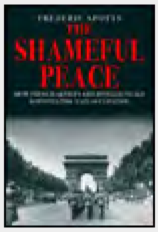
Nov 20th 2008
From The Economist print edition

“I HAD only one thought,” declared Simone de Beauvoir as Hitler’s troops advanced on Paris in June 1940, “not to be caught like a rat in occupied Paris.” So much for first reactions: like so many others of the French cultural elite, de Beauvoir, after a brief flight to the Loire valley, was soon back in Paris’s Café de Flore and other haunts of the Left Bank intelligentsia.

And why not? Paris was the uncontested cultural capital of the world—the home not just of French intellectuals and artists such as Sartre and Matisse but of a foreign galaxy, too, from America’s Man Ray to Romania’s Brancusi and Russia’s Stravinsky. Moreover, as Frederic Spotts points out, Hitler’s intent was not to subjugate or eliminate the Parisian cultural elite but to seduce it, and by dint of cultural exchange-programmes and subsidised concerts and newspapers subtly convince the French of German superiority in art, music and literature.

For any non-Jewish artist, composer or writer that posed some tricky questions: would it be easy, or even possible, to work in exile; would it be patriotic to stay—or to leave? The northern half of the country was under occupation, the southern half was under the collaborationist government of Vichy and no one could tell how long the situation would last. As Matisse put it, “If everyone of value leaves France, what remains of France?”

The Shameful Peace: How French Artists and Intellectuals Survived the Nazi Occupation
By Frederic Spotts



Yale University Press; 283 pages; $35 and £25

Buy it at
Amazon.com
Amazon.co.uk

Some of value did leave: Mondrian, Dali, Duchamp, Chagall and Léger were among those who made their various ways to New York. But many more did not. They divided between those, like Jean Guéhenno, an essayist, who bravely made no secret of their opposition to the Nazis and others, like Robert Brasillach (publisher of the viciously anti-Semitic paper “Je Suis Partout”), who were sycophantically pro-Nazi. A great number—arguably including Picasso and Sartre, as well as, less controversially, Jean Cocteau—sought the middle ground of peaceful coexistence with the occupiers, whatever their subsequent professions to the contrary.

Mr Spotts, who owes his title to Cocteau (“Long live this shameful peace,” was Cocteau’s typically flippant reaction to the occupation), has written an exhaustive study of what he says is a neglected subject. That may be a claim too far—there are, after all, plenty of books on how individual artists and intellectuals survived the occupation. But it is hard to disagree with Mr Spotts’s observations, especially when it comes to the account-settling vengeance of the liberation. And he rightly wonders whether the intellectual elite of any other country, if faced with similar circumstances, would have behaved any better.

One criticism is his indulgence in untranslated bits of French, German and Italian; another is his occasional use of words like “aleatory”, which smack of translation (Mr Spotts lives in France) and have no place in modern English. But these are small defects in a book which reveals much about France, “a country where ideas have always been more important than facts.”

The Shameful Peace: How French Artists and Intellectuals Survived the Nazi Occupation.
By Frederic Spotts.
Yale University Press; 283 pages; $35 and £25

New fiction

Bolaño-mania

Nov 20th 2008 | NEW YORK
From The Economist print edition

Hymn to a dead Chilean

OUTSIDE a bar in Manhattan's East Village, a queue snakes around the corner. The crowds have come to discuss and get their hands on an early copy of a 900-page tome written by a Chilean author who has been dead for five years. Roberto Bolaño's "2666", published posthumously in English, has just hit the bookshops, and the excitement is both overwhelming and anomalous.

Often seen in photographs puffing on a cigarette and wearing a scowl, Bolaño has become a cult figure in the world of letters. A vagabond, manual labourer and drug addict, he worked intermittently in Chile, Mexico and Spain. He spent his last decade writing fiction before dying of liver disease at 50. This frenzy yielded four short-story collections and ten novels and novellas, most of them dark, sexy and political. Some view him as the most important Latin American voice of his generation, a postmodern response to Gabriel García Márquez.

But few English speakers had heard of him before "The Savage Detectives" was published in translation last year. A sweeping 600-page work about lost youth and romantic misfit poets, it provoked a chorus of praise. James Wood applauded Bolaño's "marvellous, sad, finally sustaining novel" on the cover of the *New York Times Book Review*. As a sign of its esteem, *Playboy* awarded "The Savage Detectives" four bunnies. All this for a book with 400 pages of monologues from 30 or so characters.

Natasha Wimmer, who had translated "The Savage Detectives", was already at work on "2666", which Bolaño had written but not yet revised by the time he died. The buzz surrounding this enormous, unwieldy book has been remarkable. "2666" is a mysterious, overwhelmingly ambitious work that ties together five novels of barely related subjects. The fourth and longest catalogues the many murders in a fictional northern Mexican town called Santa Theresa. Although the book is often frustrating to read, the critical response to it has been rapturous. *Time* has already named "2666" the best book of 2008. Within days, Farrar, Straus and Giroux (FSG) rushed out a second printing, bringing the total to more than 75,000 copies.

"It's special. It's weird. I don't entirely understand the commercial side of it", said Lorin Stein, editor of "2666" at FSG. At a time when book sales are flat and less than 4% of fiction in America is translated from other languages, the success of an author whose books are known for being messy, difficult and cerebral seems particularly remarkable. "This is a difficult and very sad book, and adults rarely follow a literary author's career the way they used to," reckons Mr Stein. "It's like an intellectual Harry Potter."

There are more books among Bolaño's papers, which were discovered in Barcelona by Andrew Wylie, the New York-based agent who represents the late author's estate. Mr Wylie may be waiting for the commotion surrounding "2666" to mount even further before he opens bidding for publishing rights. In the meantime, some are only just learning about the author. Back at the downtown party, a few lads headed to the back room and asked, politely, "So, is Bolaño here?"

Obituary

Mieczyslaw Rakowski

Nov 20th 2008
From The Economist print edition

Mieczyslaw Rakowski, a Polish communist journalist and politician, died on November 8th, aged 81

Corbis

CLUNKY cogs in the propaganda machine, communist journalists in eastern Europe were a dreary and dutiful lot. Mieczyslaw Rakowski was different. *Polityka*, the magazine he edited for 24 years, was the most readable official publication in the Soviet block: cogent, insightful, sometimes irreverent.

To foreigners reporting on the long slow death of the Soviet empire, Mr Rakowski was still more interesting in person, giving candid and waspish assessments of the communist regime's political, economic and personal shortcomings. He was amusing and friendly company, at a time when congeniality was as scarce in the east as toilet paper or matches. Unlike most senior communists, he was not pompous, bullying or hidebound: you could easily believe that he was just another human being, not a defender of a system based on lies and mass murder.

Mr Rakowski did a less impressive job, however, dealing with the people who would eventually run Poland. He habitually sneered at Lech Walesa, the leader of the Solidarity trade union, calling him "Dr Walesa" in a dig at the shipyard electrician's lack of formal education: a big deal in intellectually snobbish Poland. The Gdansk accords of 1980 gave Poland a few precious months of free public life, but broke down because of Solidarity's demand for freedom to decide on Poland's future, and not just to discuss it. Mr Rakowski, by then deputy prime minister and ostensibly representing the interests of the proletariat, memorably lost his temper with the workers' representatives: "You'd be herding cows if it wasn't for this system"—pause—"and so would I."

In that sense Mr Rakowski symbolised Poland's post-war story. A peasant's son and a teenage lathe operator, he was talent-spotted by a communist regime which, installed by Soviet military force, was hungry for brain power. He rose through the system in the 1950s, at a time when Poland's rulers struggled for wiggle-room inside the Soviet block and showed something of a human face at home. For many, the modernisation and industrialisation the regime brought were welcome, regardless of the

political label attached to them.

Fried snowballs

Mr Rakowski was usually seen as an arch-trimmer, a prime example of the collaboration forced on Poland by its history. His ability to blow with the wind was best described in a scalding article (published abroad) called “The hairstyles of Mieczyslaw Rakowski”, which noted how the tousled blond locks of the youthful idealist gave way to the grizzled grey of the apparatchik. To Norman Davies, a British historian, the “crumpled faces” of Mr Rakowski and his like revealed their story: “pliable Greeks in a world ruled by cruel Roman savages, whom they serve with infinite regret and infinite agility.”

But it was not all trimming. In the 1960s Mr Rakowski publicly opposed the death penalty, then a heretical and dangerous stance. His finest hour came in 1968, when a quarrel between two factions in the communist party bubbled over into a public anti-Semitic (ostensibly “anti-Zionist”) frenzy. Mr Rakowski stood firm and refused to sack any Jews. Asked to reprint a pre-war article critical of Jews, he refused, saying their ashes were “scattered in the fields around Auschwitz”. Many Poles thought their Nazi and Soviet tormentors were two sides of the same coin; it was remarkable for a senior communist to agree in public, even in part.

But unlike some, he did not leave the party, either then or after martial law was imposed in 1981. With scores killed and thousands jailed, Mr Rakowski became the right-hand man of the country’s new military leader, General Wojciech Jaruzelski. He was ambiguous about whether he still truly believed in a democratic form of communism; Leszek Kolakowski, the exiled philosopher, rightly described that as “fried snowballs”. Mr Rakowski preferred to argue that communism protected Poland from the Soviet Union, whereas full-scale opposition would be futile. The anti-communist fighters had died in the forests; the pre-war government, in exile in London, was a husk; the Catholic church was a reactionary force. If history had placed Poland in the communist camp, then hope lay only in being its happiest barracks.

Mr Rakowski’s great ambition was to lead the communist party. He eventually became first secretary (as the job was called), but he was last as well as first, acting as the party’s undertaker in 1989 after the round-table talks paved the way for freedom and true independence. Usually celebrated as an unalloyed triumph, that transfer of power had its drawbacks. Privatisation, launched by Mr Rakowski in the dying years of communism, had allowed influential insiders to start turning power into money to safeguard their positions. Dodgy foreign trade outfits, linked with military intelligence, flourished. Party funds that Mr Rakowski had shipped out of the country returned (via a KGB courier) to launch a new post-communist party.

Mr Rakowski’s career fizzled out, fittingly, in an abortive bid for the Polish senate in 2005. His successful opponent was Radek Sikorski, now foreign minister, who had fled Poland as a political refugee from the martial law that Mr Rakowski so steadfastly defended.

Overview

Nov 20th 2008
From The Economist print edition

Consumer prices in **America** fell by 1% in October, the largest monthly fall since the price series began in 1947. Much of the decline reflected falling energy costs: the price of petrol fell by 14.2% and fuel-oil prices dropped by 8.8%. The measure of “core” consumer prices, which excludes food and energy costs, was 0.1% lower than in September, the first monthly fall since 1982. America’s industrial production rose by 1.3% in October, reversing only part of the 3.7% drop in September, when hurricanes had disrupted oil and gas production.

The already sickly **American housing market** took a turn for the worse. Housing starts fell by 4.5% in October to their lowest level since 1959, and applications for permits to build homes plunged by 12%. The National Association of Home Builders said confidence among its members slumped in November.

GDP in **Japan** fell by 0.1% in the third quarter, following a 0.9% drop in the second quarter. Much of the weakness was due to a drop in private-sector investment.

Britain’s annual consumer-price inflation rate fell from 5.2% in September to 4.5% in October, the first decline in 14 months. All nine members of the Bank of England’s monetary-policy committee voted for a cut in interest rates of 1.5 percentage points on November 6th, according to the minutes of the meeting. The committee judged that more cuts would probably be needed in the coming months to stop inflation from falling too far below the government’s 2% target.

Output, prices and jobs

Nov 20th 2008
From The Economist print edition

Output, prices and jobs

% change on year ago

	Gross domestic product				Industrial production	Consumer prices			Unemployment
	latest	qtr*	2008†	2009†	latest	latest	year ago	2008†	rate‡, %
United States	+0.8 Q3	-0.3	+1.4	-0.2	-4.1 Oct	+3.7 Oct	+3.5	+4.3	6.5 Oct
Japan	-0.1 Q3	-0.4	+0.5	-0.1	+0.2 Sep	+2.1 Sep	-0.2	+1.7	4.0 Sep
China	+9.0 Q3	na	+9.6	+8.0	+8.2 Oct	+4.0 Oct	+6.5	+6.4	9.5 2007
Britain	+0.3 Q3	-2.0	+0.9	-1.0	-2.2 Sep	+4.5 Oct§	+2.1	+3.8	5.8 Sep††
Canada	+0.7 Q2	+0.3	+0.6	+0.5	-3.3 Aug	+3.4 Sep	+2.5	+2.8	6.2 Oct
Euro area	+0.7 Q3	-0.8	+1.1	-0.1	-2.4 Sep	+3.2 Oct	+2.6	+3.3	7.5 Sep
Austria	+1.5 Q3	+0.4	+2.0	+0.8	+4.6 Aug	+3.1 Oct	+2.8	+2.9	3.2 Sep
Belgium	+1.2 Q3	+0.4	+1.4	+0.3	-5.0 Aug	+4.7 Oct	+2.2	+4.6	10.9 Sep‡‡
France	+0.6 Q3	+0.6	+0.9	nil	-1.9 Sep	+2.7 Oct	+2.0	+3.2	7.9 Sep
Germany	+0.8 Q3	-2.1	+1.4	-0.2	-2.3 Sep	+2.4 Oct	+2.8	+2.8	7.5 Oct
Greece	+3.1 Q3	+2.0	+2.6	+1.4	-3.3 Sep	+3.9 Oct	+3.1	+4.4	7.1 Aug
Italy	-0.9 Q3	-2.0	-0.1	-0.4	-5.7 Sep	+3.5 Oct	+2.1	+3.5	6.8 Q2
Netherlands	+1.8 Q3	+0.1	+2.1	+0.5	-1.6 Sep	+2.8 Oct	+1.6	+2.5	3.8 Oct††
Spain	+0.9 Q3	-0.9	+1.3	-0.5	-4.5 Sep	+3.6 Oct	+3.6	+4.5	11.9 Sep
Czech Republic	+4.7 Q3	+6.1	+4.1	+3.4	+3.4 Sep	+6.0 Oct	+4.0	+6.7	5.2 Oct
Denmark	+0.9 Q2	+1.6	+0.2	nil	+0.1 Sep	+3.7 Oct	+1.7	+3.5	1.6 Sep
Hungary	+0.8 Q3	-0.4	+2.0	+3.0	-0.7 Sep	+5.1 Oct	+6.7	+6.7	7.7 Sep††
Norway	+5.9 Q2	+2.4	+2.5	+1.5	-4.2 Sep	+5.5 Oct	-0.2	+3.6	2.4 Aug***
Poland	+5.8 Q2	na	+5.1	+2.9	+7.0 Sep	+4.2 Oct	+3.0	+4.3	8.9 Sep‡‡
Russia	+7.8 Q2	na	+7.5	+6.8	+1.6 Oct	+14.2 Oct	+10.8	+14.0	5.3 Sep‡‡
Sweden	+0.7 Q2	-0.1	+1.1	+0.5	-4.9 Sep	+4.0 Oct	+2.7	+3.7	5.7 Oct‡‡
Switzerland	+2.4 Q2	+1.5	+1.9	+0.4	+6.1 Q2	+2.6 Oct	+1.3	+2.6	2.6 Oct
Turkey	+1.9 Q2	na	+3.0	+1.7	-5.5 Sep	+12.0 Oct	+7.0	+10.2	9.0 Q3‡‡
Australia	+2.7 Q2	+1.1	+2.6	+1.9	+2.8 Q2	+5.0 Q3	+1.9	+4.4	4.3 Oct
Hong Kong	+1.7 Q3	-2.0	+3.8	+0.5	-4.2 Q2	+1.8 Oct	+3.2	+4.5	3.5 Oct††
India	+7.9 Q2	na	+6.3	+6.1	+4.8 Sep	+9.8 Sep	+6.4	+7.8	7.2 2007
Indonesia	+6.1 Q3	na	+6.2	+3.5	-0.9 Sep	+11.8 Oct	+5.8	+10.5	8.5 Feb
Malaysia	+6.3 Q2	na	+5.6	+3.2	-1.7 Sep	+8.2 Sep	+1.8	+5.8	3.5 Q2
Pakistan	+5.8 2008**	na	+6.0	+2.9	-5.6 Aug	+25.0 Oct	+9.3	+20.8	5.6 2007
Singapore	-0.5 Q3	-6.3	+2.0	-0.1	+2.4 Sep	+6.7 Sep	+2.7	+6.6	2.2 Q3
South Korea	+3.9 Q3	+2.3	+4.5	+1.6	+6.1 Sep	+4.8 Oct	+3.0	+5.0	3.1 Oct
Taiwan	-1.0 Q3	na	+4.0	+1.5	-1.4 Sep	+2.4 Oct	+5.3	+3.8	4.1 Sep
Thailand	+5.3 Q2	+2.9	+4.5	+3.1	+4.6 Sep	+3.9 Oct	+2.5	+5.8	1.3 Jul
Argentina	+7.8 Q2	+8.7	+6.2	+2.2	+4.4 Sep	+8.4 Oct	+8.4	+9.0	7.8 Q3‡‡
Brazil	+6.1 Q2	+6.6	+5.3	+2.7	+9.8 Sep	+6.4 Oct	+4.1	+5.8	7.6 Sep‡‡
Chile	+4.3 Q2	+7.4	+3.9	+2.8	+3.2 Sep	+9.9 Oct	+6.5	+8.8	7.8 Sep††‡‡
Colombia	+3.7 Q2	+2.8	+4.5	+4.0	-3.3 Sep	+7.9 Oct	+5.2	+6.7	11.1 Sep‡‡
Mexico	+2.8 Q2	+0.6	+1.9	+0.9	-1.6 Aug	+5.8 Oct	+3.7	+5.3	4.3 Sep‡‡
Venezuela	+4.6 Q3	na	+5.4	+2.7	-6.8 Aug	+35.6 Oct	+17.2	+31.0	7.2 Q3‡‡
Egypt	+6.8 Q2	na	+7.1	+6.7	+6.8 Q2	+20.2 Oct	+7.5	+17.1	8.4 Q2‡‡
Israel	+4.9 Q2	+4.2	+4.1	+2.5	+13.9 Aug	+5.5 Oct	+2.2	+4.7	5.9 Q2
Saudi Arabia	+3.5 2007	na	+6.5	+3.3	na	+10.4 Sep	+4.9	+8.5	na
South Africa	+4.5 Q2	+4.9	+3.5	+2.5	+4.9 Sep	+13.1 Sep	+7.2	+11.3	23.2 Sep‡‡
MORE COUNTRIES Data for the countries below are not provided in printed editions of *The Economist*									
Estonia	-3.3 Q3	na	-1.5	-1.1	-3.8 Sep	+9.8 Oct	+8.5	+10.5	4.2 Sep
Finland	+2.4 Q2	+3.1	+2.6	+1.1	+0.8 Sep	+4.4 Oct	+2.6	+4.2	6.5 Sep
Iceland	+5.0 Q2	+20.9	nil	+0.8	+0.4 2007	+15.9 Oct	+4.5	+12.0	1.9 Oct‡‡
Ireland	-0.8 Q2	-2.1	-2.4	-1.9	+4.0 Sep	+4.0 Oct	+4.8	+4.0	6.7 Oct
Latvia	-4.2 Q3	na	-0.4	-0.5	-5.4 Sep	+13.8 Oct	+13.2	+15.8	5.7 Jul
Lithuania	+3.1 Q3	+1.6	+4.4	+1.6	na	+10.5 Oct	+7.5	+11.0	4.7 Aug‡‡
Luxembourg	+2.8 Q2	+4.5	+2.5	+1.5	-0.7 Sep	+3.3 Oct	+2.9	+4.0	4.3 Sep‡‡
New Zealand	-0.3 Q2	-2.1	+0.3	+1.1	+2.4 Q2	+5.1 Q3	+1.8	+4.3	4.2 Q3
Peru	+9.9 Sep	na	+9.1	+5.5	+9.0 Sep	+6.5 Oct	+3.1	+5.7	7.7 Sep††
Philippines	+4.6 Q2	+8.4	+4.4	+2.3	+6.5 Aug	+11.2 Oct	+2.7	+9.6	7.4 Q3‡‡
Portugal	+0.7 Q3	nil	+0.4	-0.8	-4.3 Sep	+2.3 Oct	+2.6	+2.9	7.3 Q2‡‡
Slovakia	+7.1 Q3	nil	+6.8	+4.5	+5.5 Sep	+5.1 Oct	+3.2	+4.7	7.5 Sep††
Slovenia	+5.5 Q2	na	+4.2	+2.8	+5.6 Sep	+4.9 Oct	+5.1	+6.0	6.4 Aug‡‡

*% change on previous quarter, annual rate. †*The Economist* poll or Economist Intelligence Unit estimate/forecast. ‡National definitions.- §RPI inflation rate 4.2% in Oct. **Year ending June. ††Latest three months. ‡‡Not seasonally adjusted. ***Centred 3-month average

Sources: National statistics offices and central banks; Thomson Datastream; Reuters; Centre for Monitoring Indian Economy; OECD; ECB

The Economist commodity-price index

Nov 20th 2008
From The Economist print edition

The Economist commodity-price index

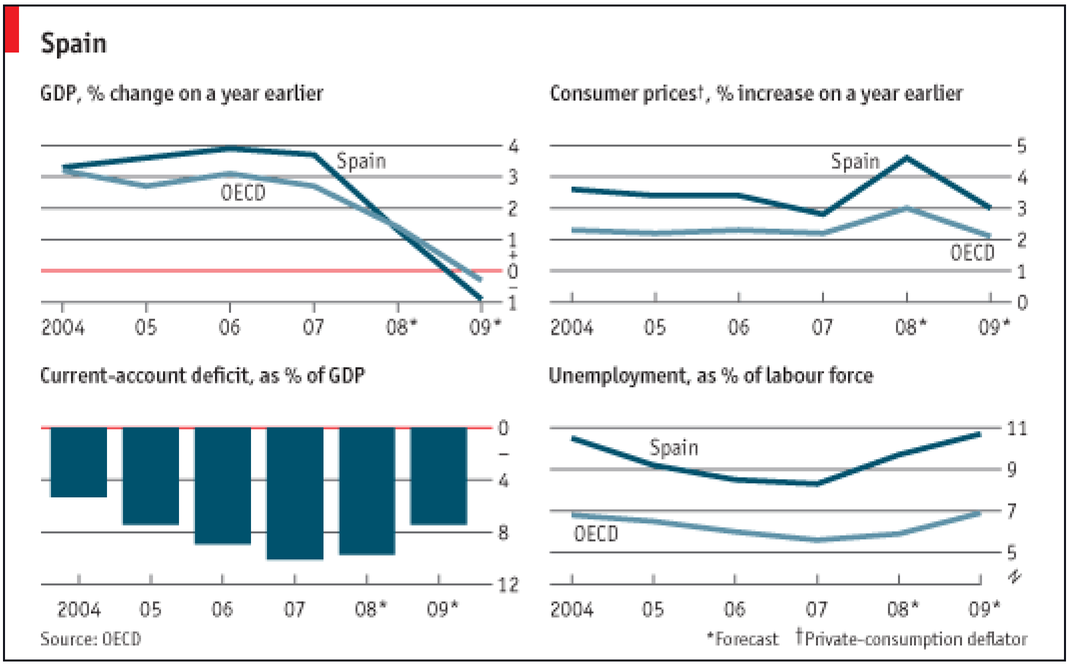
2000=100

	Nov 11th	Nov 18th*	% change on one month	% change on one year
Dollar index				
All items	163.0	160.5	-6.9	-23.7
Food	178.1	177.1	-3.8	-10.5
Industrials				
All	143.6	139.0	-11.7	-38.6
Nfa†	128.9	127.5	-8.7	-27.1
Metals	151.6	145.3	-13.1	-42.9
Sterling index				
All items	160.3	162.1	+5.2	+4.9
Euro index				
All items	120.2	117.3	-2.9	-10.8
Gold				
$ per oz	729.50	738.25	-4.6	-6.9
West Texas Intermediate				
$ per barrel	59.33	54.37	-23.4	-45.1

*Provisional †Non-food agriculturals.

Spain

Nov 20th 2008
From The Economist print edition



Trade, exchange rates, budget balances and interest rates

Nov 20th 2008
From The Economist print edition

Trade, exchange rates, budget balances and interest rates

	Trade balance* latest 12 months, $bn	Current-account balance latest 12 months, $bn	Current-account balance % of GDP 2008†	Currency units, per $ Nov 19th	Currency units, per $ year ago	Budget balance % of GDP 2008†	Interest rates, % 3-month latest	Interest rates, % 10-year gov't bonds, latest
United States	−851.1 Sep	−699.0 Q2	−4.6	–	–	−3.2	1.32	3.32
Japan	+64.8 Sep	+185.9 Sep	+4.0	96.9	108	−3.0	0.73	1.47
China	+265.2 Oct	+371.8 2007	+8.9	6.83	7.41	0.4	3.69	3.06
Britain	−185.5 Sep	−82.9 Q2	−3.0	0.66	0.49	−3.8	3.98	4.04
Canada	+52.6 Sep	+13.6 Q2	+0.9	1.24	0.99	0.2	1.85	3.77
Euro area	−40.4 Sep	−36.2 Aug	−0.4	0.79	0.67	−1.1	4.12	3.48
Austria	−0.3 Aug	+14.5 Q2	+2.9	0.79	0.67	−1.0	4.12	4.09
Belgium	+3.3 Jul	−9.8 Jun	+1.6	0.79	0.67	−0.6	4.18	4.15
France	−80.7 Sep	−53.6 Sep	−1.7	0.79	0.67	−3.0	4.12	3.89
Germany	+288.4 Sep	+266.8 Sep	+6.7	0.79	0.67	0.9	4.12	3.48
Greece	−67.7 Sep	−52.5 Sep	−10.3	0.79	0.67	−3.2	4.12	4.98
Italy	−17.0 Sep	−71.1 Aug	−2.9	0.79	0.67	−2.6	4.12	4.54
Netherlands	+60.0 Sep	+62.5 Q2	+6.7	0.79	0.67	1.1	4.12	3.85
Spain	−154.9 Aug	−165.3 Aug	−10.0	0.79	0.67	−2.5	4.12	4.04
Czech Republic	+6.3 Sep	−5.0 Sep	−2.9	20.3	18.1	−2.0	4.19	4.27
Denmark	+6.5 Sep	+6.5 Sep	+1.2	5.89	5.03	4.1	7.30	3.94
Hungary	+0.4 Sep	−8.8 Q2	−5.5	214	173	−3.8	11.67	10.50
Norway	+83.8 Oct	+78.1 Q2	+17.3	7.00	5.43	17.8	6.12	4.41
Poland	−22.0 Sep	−27.3 Sep	−5.6	3.02	2.49	−1.8	6.72	6.45
Russia	+195.9 Sep	+116.5 Q3	+6.2	27.4	24.3	4.5	12.00	8.79
Sweden	+19.0 Sep	+38.6 Q2	+7.7	8.06	6.30	2.4	3.15	3.30
Switzerland	+17.7 Oct	+60.2 Q2	+12.0	1.21	1.10	0.9	2.00	2.41
Turkey	−75.6 Sep	−47.1 Sep	−7.1	1.69	1.21	−1.6	21.09	10.41‡
Australia	−14.0 Sep	−61.1 Q2	−5.4	1.53	1.15	0.3	4.63	4.84
Hong Kong	−27.2 Oct	+27.5 Q2	+10.3	7.75	7.78	−1.0	2.10	1.45
India	−106.5 Sep	−21.9 Q2	−3.2	50.0	39.4	−4.3	7.33	7.94
Indonesia	+17.3 Sep	+6.3 Q2	+0.5	11,900	9,405	−1.4	12.40	14.87‡
Malaysia	+41.9 Sep	+35.3 Q2	+12.8	3.61	3.38	−5.0	3.65	4.70‡
Pakistan	−22.4 Oct	−14.0 Q2	−6.2	79.2	60.9	−6.7	15.46	25.23‡
Singapore	+20.6 Oct	+32.8 Q2	+17.4	1.53	1.45	0.8	0.78	2.34
South Korea	−12.2 Oct	−10.6 Sep	−2.3	1,447	929	1.0	5.49	5.91
Taiwan	+6.5 Oct	+28.8 Q3	+5.8	33.3	32.3	−1.7	2.45	1.78
Thailand	+3.7 Sep	+5.4 Sep	−0.4	35.0	33.8	−1.9	3.85	3.67
Argentina	+15.9 Sep	+6.0 Q2	+2.7	3.33	3.14	0.7	22.44	na
Brazil	+26.5 Oct	−25.2 Sep	−1.8	2.38	1.79	−1.6	13.63	6.16‡
Chile	+14.4 Oct	+1.0 Q2	−1.0	654	512	7.0	8.16	4.90‡
Colombia	+2.3 Aug	−4.9 Q2	−2.6	2,341	2,071	−1.0	10.02	9.09‡
Mexico	−11.3 Sep	−5.3 Q2	−0.8	13.2	11.0	nil	7.72	9.69
Venezuela	+41.9 Q2	+49.4 Q3	+14.8	5.18	6.23§	1.6	17.63	6.55‡
Egypt	−23.4 Q2	+0.9 Q2	+0.2	5.54	5.52	−7.1	11.90	6.45‡
Israel	−13.7 Sep	+3.5 Q2	+0.9	3.98	3.89	−0.8	3.51	4.90
Saudi Arabia	+150.8 2007	+95.0 2007	+31.7	3.75	3.73	13.3	4.03	na
South Africa	−10.6 Sep	−22.5 Q2	−6.0	10.4	6.83	0.3	12.35	8.67
MORE COUNTRIES Data for the countries below are not provided in printed editions of *The Economist*								
Estonia	−4.3 Aug	−3.3 Sep	−12.0	12.4	10.6	−0.7	7.02	na
Finland	+11.4 Sep	+10.0 Sep	+3.8	0.79	0.67	4.5	4.17	3.98
Iceland	−0.6 Oct	−4.5 Q2	−18.5	139	62.4	2.0	18.45	na
Ireland	+39.0 Aug	−15.8 Q2	−2.9	0.79	0.67	−5.8	4.12	4.35
Latvia	−6.4 Sep	−5.3 Sep	−15.0	0.56	0.47	−1.5	10.01	na
Lithuania	−7.9 Sep	−6.7 Sep	−13.9	2.73	2.33	−0.9	7.68	na
Luxembourg	−6.9 Aug	+5.1 Q2	na	0.79	0.67	0.3	4.12	na
New Zealand	−3.7 Sep	−11.4 Q2	−7.1	1.82	1.33	0.3	6.15	5.61
Peru	+5.5 Sep	−1.5 Q2	−2.8	3.10	3.01	2.7	6.54	na
Philippines	−8.5 Aug	+4.3 Jun	+1.7	49.9	43.3	−0.9	4.44	na
Portugal	−33.6 Aug	−27.9 Jul	−9.7	0.79	0.67	−2.4	4.12	4.24
Slovakia	−0.8 Sep	−6.1 Jul	−5.6	24.0	22.5	−2.2	1.26	4.42
Slovenia	−4.6 Sep	−3.5 Aug	−6.6	0.79	0.67	0.4	4.12	na

*Merchandise trade only. †*The Economist* poll or Economist Intelligence Unit forecast. ‡Dollar-denominated bonds. §Unofficial exchange rate.
Sources: National statistics offices and central banks; Thomson Datastream; Reuters; JPMorgan; Bank Leumi le-Israel; Centre for Monitoring Indian Economy; Danske Bank; Hong Kong Monetary Authority; Standard Bank Group; UBS; Westpac.

Markets

Nov 20th 2008
From The Economist print edition

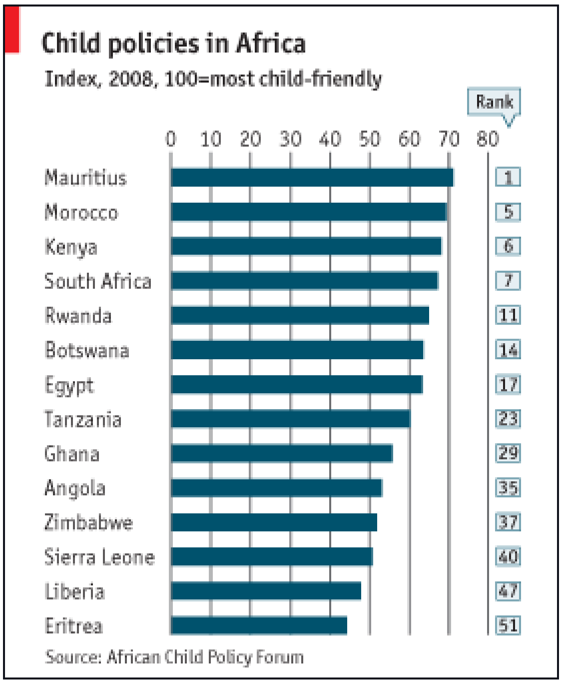
Markets

	Index	% change on	Dec 31st 2007	
	Nov 19th	one week	in local currency	in $ terms
United States (DJIA)	7,997.3	−3.4	−39.7	−39.7
United States (S&P 500)	806.6	−5.4	−45.1	−45.1
United States (NAScomp)	1,386.4	−7.5	−47.7	−47.7
Japan (Nikkei 225)	8,273.2	−4.9	−46.0	−37.7
Japan (Topix)	827.4	−5.5	−43.9	−35.4
China (SSEA)	2,119.3	+8.5	−61.6	−58.9
China (SSEB, $ terms)	108.1	+9.3	−72.4	−70.4
Britain (FTSE 100)	4,005.7	−4.2	−38.0	−52.9
Canada (S&P TSX)	8,490.6	−4.8	−38.6	−51.1
Euro area (FTSE Euro 100)	698.9	−4.7	−49.2	−56.0
Euro area (DJ STOXX 50)	2,295.4	−4.4	−47.8	−54.8
Austria (ATX)	1,646.6	−11.9	−63.5	−68.4
Belgium (Bel 20)	1,945.3	−5.5	−52.9	−59.2
France (CAC 40)	3,087.9	−4.5	−45.0	−52.4
Germany (DAX)*	4,354.1	−5.8	−46.0	−53.3
Greece (Athex Comp)	1,897.1	−5.6	−63.4	−68.3
Italy (S&P/MIB)	19,535.0	−3.4	−49.3	−56.1
Netherlands (AEX)	238.1	−4.5	−53.8	−60.0
Spain (Madrid SE)	879.4	−4.9	−46.4	−53.6
Czech Republic (PX)	777.2	−5.9	−57.2	−61.7
Denmark (OMXCB)	231.4	−7.0	−48.4	−55.4
Hungary (BUX)	11,524.7	−2.2	−56.1	−64.5
Norway (OSEAX)	241.6	−9.2	−57.6	−67.1
Poland (WIG)	26,108.6	−5.4	−53.1	−61.8
Russia (RTS, $ terms)	605.8	−4.6	−70.4	−73.5
Sweden (Aff.Gen)	179.0	−6.5	−47.4	−57.8
Switzerland (SMI)	5,524.1	−3.1	−34.9	−38.9
Turkey (ISE)	21,929.3	−13.5	−60.5	−72.6
Australia (All Ord.)	3,483.2	−10.3	−45.8	−60.5
Hong Kong (Hang Seng)	12,815.8	−8.1	−53.9	−53.6
India (BSE)	8,773.8	−8.0	−56.8	−65.9
Indonesia (JSX)	1,180.4	−11.0	−57.0	−66.1
Malaysia (KLSE)	877.7	−1.4	−39.3	−44.4
Pakistan (KSE)	9,184.1	nil	−34.8	−49.3
Singapore (STI)	1,665.6	−6.6	−51.9	−54.7
South Korea (KOSPI)	1,016.8	−9.5	−46.4	−65.3
Taiwan (TWI)	4,284.1	−7.2	−49.6	−50.9
Thailand (SET)	408.5	−6.2	−52.4	−54.2
Argentina (MERV)	925.4	−8.2	−57.0	−59.3
Brazil (BVSP)	33,404.0	−2.8	−47.7	−60.9
Chile (IGPA)	11,829.9	+0.3	−16.0	−36.0
Colombia (IGBC)	7,010.5	+0.2	−34.4	−43.5
Mexico (IPC)	18,578.4	−1.2	−37.1	−47.8
Venezuela (IBC)	35,397.7	+0.2	−6.6	−59.9
Egypt (Case 30)	4,098.5	−18.4	−60.9	−61.0
Israel (TA-100)	585.4	−7.2	−49.3	−51.0
Saudi Arabia (Tadawul)	4,880.4	−11.0	−55.8	−55.8
South Africa (JSE AS)	18,756.7	−4.6	−35.2	−57.2
Europe (FTSEurofirst 300)	812.0	−4.9	−46.1	−53.4
World, dev'd (MSCI)	821.6	−5.6	−48.3	−48.3
Emerging markets (MSCI)	489.6	−8.2	−60.7	−60.7
World, all (MSCI)	202.7	−5.8	−49.7	−49.7
World bonds (Citigroup)	742.2	+0.6	+1.6	+1.6
EMBI+ (JPMorgan)	346.8	−3.0	−20.0	−20.0
Hedge funds (HFRX)	1,043.4	−1.3	−21.5	−21.5
Volatility, US (VIX)	74.3	66.5	22.5	(levels)
CDSs, Eur (iTRAXX)†	173.6	+11.1	+243.0	+196.8
CDSs, N Am (CDX)†	251.3	+17.4	+222.7	+222.7
Carbon trading (EU ETS) €	16.4	−8.8	−26.2	−36.1

*Total return index. †Credit-default swap spreads, basis points.
Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; JPMorgan Chase; Bank Leumi le-Israel; CBOE; CMIE; Danske Bank; EEX; HKMA; Markit; Standard Bank Group; UBS; Westpac.

Child policies in Africa

Nov 20th 2008
From The Economist print edition



A new report from the African Child Policy Forum, a pressure group based in Addis Ababa, ranks 52 of the continent's countries according to how well they protect and nurture minors. The Forum's index is based on more than 40 indicators, covering the provision of health care and education, as well as policies that safeguard children against exploitation by adults. Mauritius is rated the most child-friendly African nation. The top 20 includes fairly rich countries, such as Egypt, Morocco and South Africa, as well as poorer nations, such as Kenya and Rwanda. The report finds that more than half of Africa's countries do not yet prohibit corporal punishment in schools. A third have not banned child trafficking.